



February 23, 2021

Chairwoman Delores G. Kelley
Miller Senate Office Building, 3 East Wing
11 Bladen St., Annapolis, MD 21401
Annapolis, MD 21401

SB 0532 – Oppose

Dear Chairwoman Kelley and Members of the Finance Committee:

Chairwoman Kelley and Members of this committee, my name is Patrick Siegfried and I am here today on behalf of Rapid Financial Services, LLC. Rapid was founded in 2006 and has been headquartered in Montgomery County, Maryland since its inception. To date we have provided over \$2 billion in working capital to small businesses throughout the United States. We employ nearly 200 employees at our Bethesda office and have been consistently named as one of the top places to work by the Washington Post.

Our financing products include sales-based financing which is the subject SB 0532. This type of financing allows small businesses to sell a portion of their future revenue in exchange for immediate working capital. Last year, the sponsor of SB 0532 introduced a different bill, SB 0913. That bill would have completely banned sales-based financing in Maryland. After its introduction we met with the sponsor of the bill multiple times and spoke with many of the members of this committee to provide information about sales-based financing and how it is a critical option for small businesses in need of working capital. Thankfully, SB 0913 did not progress out of committee and sales-based financing has continued to be available to small businesses in need of working capital.

In a sales-based financing transaction, there is no repayment term, interest rate, or set payment amounts. And, most importantly, there is no personal guarantee required of the business owner. Because there are no personal guarantee, the risk is placed on the funder. Rapid takes the risk of the business slowing down or even failing. Last year, I testified to these benefits of sales-based financing, and, unfortunately, the COVID pandemic has proven how important they can be to small businesses. As many businesses were shut down due to COVID, those businesses with a sales-based financing product were not required to make any payments. Moreover, if those businesses had to shut their doors forever, the business owners will not be responsible for any remaining balance because there is no personal guarantee. In contrast, small businesses with loans or lines of credit products were still required to make payments under the terms of those transactions throughout COVID and the business owners who guaranteed those transactions are still obligated to ensure that the lender is repaid.

Nationwide, Rapid had 293 customers with sales-based financing accounts that experienced decreased revenue as a result of COVID. In the event these businesses ultimately failed, Rapid would take a loss of \$9,187,459.91. However, the owners of these businesses will not owe Rapid anything. In Maryland, Rapid has 10 customers that have been severely impacted by COVID-19. If these businesses, unfortunately, do not survive the pandemic, their owners will walk away debt-free.

Since the introduction of SB 0532, we have continued to speak with the sponsor regarding the bill. However, we are unable to support the bill, as it would restrict access to an important type of working capital. Moreover, it would apply the federal Truth in Lending Act (“TILA”) to commercial finance products that the Act was never meant to cover. TILA does not provide any guidance or language in applying APR to commercial financing or more specifically to sales-based financing transactions such as the financing at issue in SB 0532.

While we oppose SB 0532, we are committed to working with this committee, and the sponsors, to create thoughtful and comprehensive legislation to regulate commercial financing.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick Siegfried', written in a cursive style.

Patrick Siegfried
Deputy General Counsel
Rapid Financial Services, LLC