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To: Members of the Banking Committee  
From: Alexis Shapiro, General Counsel, Forward Financing LLC  
Re: Proposed SB 1032, An Act Requiring Certain Financing Disclosures  
Position: Opposed

My name is Alexis Shapiro, and I am the General Counsel at Forward Financing. Forward Financing is a Boston-based fintech company that provides working capital to small businesses across the country. We are a member of the Small Business Financing Association. To date, Forward Financing has provided nearly \$2 billion in working capital to more than 45,000 small businesses nationwide. In Connecticut, we have provided nearly 500 small businesses with approximately \$20 million in financing.

Forward Financing is committed to helping small businesses. In Boston, we have partnered with the Initiative for a Competitive Inner City (ICIC) to offer tuition-free education programs designed to help Black, Indigenous, People of Color and women-owned firms develop sustainable growth strategies. We are working on establishing similar initiatives in other states, and would welcome the chance to do so in Connecticut as well. Our customers have given us *thousands* of 5-star ratings on TrustPilot and Google Review and we have an A+ rating with the Better Business Bureau. More than one-third of our customers return for additional rounds of financing after completing payment on their first ones. Video testimonials from our customers can be found on our website, [www.forwardfinancing.com](http://www.forwardfinancing.com).

The financing product that we offer small businesses is what SB 1032 refers to as “sales-based financing.” Through this product, small businesses receive quick, upfront capital from us in exchange for a set dollar amount of their future revenues. The small business submits those purchased receivables to us by sending a percentage, typically about 10%, of their monthly gross receipts until they have sent us the full amount of receipts we purchased. For example, we might provide a Hartford pizza shop with \$8,000 to purchase a new oven, in exchange for \$10,000 of their future receipts. So, we provide the upfront money, the shop purchases their new oven, then with that oven now creating increased pizza sales, the shop will send us 10% of the monthly receipts it is generating until they have sent us the full \$10,000 in receipts we purchased. That might take it 3 months to complete, it might take it 5 months, it might take it a year, 2 years or more.

The enormous benefit of sales-based financing for small businesses is that, because we are only entitled to a set percentage of monthly revenues, if our customer’s revenues decrease, so too do their required monthly dollar payments to us. If a business’s revenues decrease to \$0 for a given month (like they did during the height of Covid), then because 10% of \$0 = \$0, the business owes us nothing that month. Unlike with a loan, there are no fixed payments and no interest rate. If we contracted to receive \$10,000 in receivables, that number will never change, regardless of how long it takes the customer to pay. Additionally, the risk lies on us - if a customer closes its business before being able to pay us their contracted amount, Forward Financing bears the loss. There is no personal payment guarantee or security requirement.

Forward Financing supports & encourages disclosures that will help Connecticut small businesses make informed financial decisions. However, portions of SB 1032’s requirements will lead to more confusion for small businesses than clarity. For example, this proposed law requires disclosure of “APR” for sales-

based financing products. Because, as illustrated above, it is impossible to know at the outset how long it will take a small business to submit the contracted-for revenues, APR is an inherently inaccurate and misleading concept for sales-based financing. When a small business experiences a downturn in revenues and therefore the monthly dollar amount remitted is lowered, that causes the amount of time it takes for Forward Financing to collect the full amount contracted for to increase. Immediately, an originally disclosed APR will be misleadingly high (because under SB 1032 the Provider would be forced to use an artificial estimated term to calculate it). The small business, however, has benefitted immensely by being able to lower its daily obligation during a troubling time for the business. Yet it might have been dissuaded from originally entering the transaction due to the misleading APR disclosure the Provider was forced to make pursuant to SB 1032. Accordingly, forcing Providers to disclose an APR that implies it provides an “apples to apples” comparison to other financing products creates very problematic and misleading statements to the small businesses it intends to help.

In California, a law similar to SB 1032 went into effect in December 2022, requiring APR disclosures for commercial financing, including sales-based financing. Shortly thereafter, a lawsuit was filed against the California DFPI, arguing (among other things) that forced APR disclosures on sales-based financing products in essence mandate that funders make inaccurate and misleading statements to small businesses. That case is currently being litigated.

Other states, however, have passed laws that better recognize that sales-based financing is a unique product that simply cannot be lumped in with loan-like products, and require instead more relevant disclosures of the total cost of the transaction to customers. *See* Utah Code Chapter 27 §7-27-101; Virginia Code Chapter 22.1.

In conclusion, Forward Financing support efforts to mandate transparency and promote good behavior in the alternative financing industry, however, SB 1032 – and in particular its requirement for disclosure of APR for sales-based financing – will do the exact opposite.

Thank you for the opportunity to provide testimony. Forward Financing would welcome the opportunity to work with this committee to create financial disclosure requirements that will provide clarity and assistance to Connecticut’s small businesses.

Respectfully submitted,

Alexis Shapiro

General Counsel, Forward Financing