



EQUIPMENT LEASING AND FINANCE ASSOCIATION
1625 Eye Street NW P 202.238.3400
Suite 850 F 202.238.3401
Washington, DC 20006 www.elfaonline.org

Testimony
Senate Bill 1235
Commercial Financing: Disclosures
California State Senate Judiciary Committee
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Scott Riehl
Vice President, State Government Relations
Equipment Leasing & Finance Association

The [Equipment Leasing and Finance Association \(ELFA\)](http://www.elfaonline.org) represents financial services companies and manufacturers in the commercial equipment lease finance sector. Senate Bill 1235 does not apply across the board to all entities providing commercial lending but only the subset of those entities who are licensees. Our industry is working with the sponsor to exempt these non-depository licensees that are ELFA members. ELFA is unaware of any abuses in this area or with respect to the issues this legislation is allegedly trying to address and the sponsor has extended the opportunity to collaborate on bill text that would exempt us. We hope this joint endeavor will bring resolution as the only other option is for ELFA to oppose this legislation.

SB 1235 would raise our cost of extending credit and chill lending to small commercial customers that seek financing below the ceiling it establishes. It picks up referral-type relationships and broadens the boundaries of what constitutes a loan while placing consumer protections on commercial transactions despite the Uniform Commercial Code (UCC) separation of such financings.

Point 9 of the Bill Analysis regarding APR calculations explains “the actual formulas are so complex that it is impossible to replicate them in the format used for standard committee analyses. The description provided in Appendix J of TILA is illustrative, if incomprehensible: . . .” Also note Regulation Z’s disclosure rules do not apply to transactions secured by personal property greater than \$55,800. As a result, the bill proposes protections for commercial transactions that are greater than those that are required for consumer transactions.

Uniform Commercial Code Articles 9 and 2A are in effect in all 50 states, and neither require APR disclosures for commercial transactions while amply protecting both borrowers/lessees and lenders/lessors. It is puzzling that the impact of SB 1235 on transactions governed by Article 9 and Article 2A that dominate commercial lending and leasing have not been considered in the Bill Analysis. Equipment leasing and financing is a competitive marketplace, and borrowers and lessees routinely comparison shop with full knowledge of acquisition costs, monthly payments, total payments, interest rates, rent factors, tax benefits, etc. The disclosure requirements set forth in SB 1235 complicates these well-structured processes governed by long-standing disclosures and transaction mechanics set forth in Uniform Commercial Code Articles 9 and 2A.

Brushing aside California's endorsement of the aforementioned guidance of the Uniform Commercial Code, SB 1235 will heighten cost of compliance by adding the additional processes and costs that would be passed on by lenders to customers with an increase in their cost of borrowing. Senate Bill 1235 should not remove the Uniform Commercial Code from consideration in small business financing and mix in disclosures costing the customer more money in the form of labor and time to prepare the hybrid documentation it would create.

Compliance with procedures proposed by SB 1235 will slow down the process of approving, documenting and closing transactions resulting in California customers not being able to obtain financing as timely and with as much certainty as in the past. Senate Bill 1235 prompts our industry to limit financing to the most secure credit worthy businesses to the detriment of less established customers that have not yet gained as durable a position in the marketplace. It is an impediment to our financings to small business that we ask you not support.