
OLR Bill Analysis

sHB 5211

AN ACT CONCERNING COMMERCIAL FINANCING.

SUMMARY

This bill makes the following changes to the law on required disclosures for sales-based financing transactions and registration of the financing providers and brokers (see BACKGROUND):

1. eliminates the \$250,000 threshold above which transactions are exempt from having the disclosures, thus making all sales-based financing transactions subject to the law's requirements and requiring their providers and brokers to be registered with the banking department;
2. requires financing providers to disclose, when extending a specific financing offer, an estimated annual percentage rate (APR);
3. relieves the providers from liability if an actual APR charged differs from the disclosed estimated APR;
4. requires providers that disclose a charge, pricing metric, or financing amount to a financing recipient after extending a specific offer, to also disclose the APR (using the words "annual percentage rate" or "APR");
5. prohibits providers from deceptively using the terms "interest" or "rate" in communications with a recipient that could reasonably mislead the recipient, but specifies that using the terms is not deceptive if the communication's metric of financing cost is an annual interest rate or APR that is (a) fixed or (b) floating and shown as a margin over an index rate; and
6. prohibits these financing contracts entered on or after October 1,

2026, from having a nondisclosure provision that requires the recipient to keep the contract confidential and makes the provision unenforceable if it is included in the contract.

Under existing law, which applies to the bill's provisions, violations of the financing disclosure requirements are subject to various enforcement actions by the banking commissioner, such as (1) registration suspension or revocation; (2) civil penalties of up to \$100,000 per violation; or (3) injunctive relief (CGS § 36a-872).

The bill also makes technical and conforming changes.

EFFECTIVE DATE: October 1, 2026

§ 2 — ESTIMATED APR DISCLOSURE

Under existing law, lenders providing this financing must generally disclose to applicants information such as the financing amount, payment amount, finance charges and other potential fees, term, and any prepayment amount. The banking commissioner sets the format for providing the disclosures.

The bill additionally requires them to disclose the estimated APR (using the words "annual percentage rate" or the APR abbreviation). The rate must be shown as a yearly rate, including any fees and finance charges and calculated in accordance with federal regulations under the federal Truth in Lending Act (12 C.F.R. § 1026.22), based on the estimated term of repayment and projected periodic payment amounts calculated using the recipient's projected sales or revenue.

Methods for Calculating Projected Sales or Revenue Volume

The bill allows the projected sales or revenue volume to be calculated using either the "safe harbor" method or the "underwriting" method. It requires each provider to notify the banking commissioner, in a form and manner he chooses, about which method the provider intends to use to calculate the estimated APRs for all sales-based financing offerings.

Safe Harbor Method. Under the safe harbor method, the provider

must use an average of the recipient's sales or revenue volume during a fixed period. The period must be (1) from the 12 months immediately before the specific offer, (2) between 3 and 12 consecutive months in length, and (3) used for all disclosures of sales-based financing products the provider offers.

Underwriting Method. Under the underwriting method, the provider must use the projected sales or revenue volume that it relied on to underwrite the specific offer.

Providers choosing this method must participate in a review process the commissioner sets. Beginning October 1, 2027, they must annually report data to the commissioner on the (1) estimated APRs they disclosed to recipients and (2) actual retrospective APRs of completed transactions.

Under the bill, the report must have information that the commissioner may require to determine if the deviation between the estimated and actual retrospective APRs was reasonable. The commissioner must establish the reporting method and may, upon finding that the use of projected sales or revenue volume resulted in an unacceptable deviation between the estimated and actual APRs, require the provider to use the safe harbor method instead. As part of making this finding, the commissioner may consider unusual and extraordinary circumstances affecting the provider's deviation between estimated and actual APRs.

BACKGROUND

Sales-Based Financing

By law, sales-based financing is a transaction in which the recipient repays over time (1) as a percentage of sales or revenue, and the payment may increase or decrease according to the recipient's sales or revenue, or (2) according to a mechanism where repayment is as a fixed amount but with a reconciliation process that adjusts to an amount that is a percentage of sales or revenue.

COMMITTEE ACTION

Banking Committee

Joint Favorable Substitute

Yea 9 Nay 4 (03/10/2026)