

Texas Legislature Proposes Disclosure Rules for Commercial Sales-Based Financing

Article By:

A.J. S. Dhaliwal

Mehul N. Madia

Maxwell Earp-Thomas

The Texas House and Senate introduced [House Bill 700](#) and [Senate Bill 2677](#) to regulate commercial sales-based financing transactions. The proposed legislation would impose standardized disclosure requirements, require broker registration, and subject these transactions to the state's usury laws.

The bills define commercial sales-based financing as business-purpose transactions repaid either as a percentage of sales or revenue, or through a fixed payment structure that includes a reconciliation process to align payments with the recipient's revenue. The legislation would apply to products such as merchant cash advances and would require providers extending more than \$500,000 in financing to disclose the following:

- Total financing and disbursement amounts. Providers would be required to clearly disclose both the gross financing amount and the net proceeds available to the recipient.
- Finance charges and repayment obligations. The disclosure must include an itemized statement of the total repayment amount and all associated finance charges.
- Payment structure. Providers must identify whether payments are fixed or variable and include any projected average monthly payment estimates.
- Fees and penalties. The disclosure must identify all potential fees, including draw fees, late payment charges, and prepayment penalties.
- Collateral requirements. Providers must summarize any security interests or liens required as a condition of financing.

Notably, the bills provide that all fees and charges imposed under a sales-based financing transaction constitute "interest" for purposes of Texas usury law, regardless of the amount financed or how the transaction is structured. Commercial sales-based financing brokers would also be required to register annually with the Texas Department of Banking. While the legislation authorizes agency enforcement and civil penalties of up to \$100,000, it expressly precludes any private right of action.

Putting It Into Practice: Texas' proposal represents a significant departure from the long-standing treatment of merchant cash advances as non-loan, non-usurious arrangements. If passed, the proposed laws would become the latest in a series of new laws regulating commercial financing transactions which have recently been enacted in other states, including California, Connecticut, Florida, Georgia, Kansas, New York, Virginia, and Utah (see previous blog posts [here](#), [here](#), and [here](#)). Providers and brokers offering merchant cash advances or similar products should assess how treating fees as interest could impact transaction structures and pricing models.

[Listen to this article](#)

Copyright © 2025, Sheppard Mullin Richter & Hampton LLP.

National Law Review, Volume XV, Number 121

Source URL: <https://natlawreview.com/article/texas-legislature-proposes-disclosure-rules-commercial-sales-based-financing>