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Vermont Folds Sales-Based Financing and Factoring Into Its Licensing Regime

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Vermont just became the latest state to pull commercial finance into a licensing-and-disclosure framework that started life in consumer credit. On June 16, 2026, Governor Phil Scott signed H.648, now Act 142. The commercial financing piece, new 8 V.S.A. § 2247, takes effect July 1, 2027, and it reaches both sales-based financing and factoring. Companies that fund Vermont merchants, and the brokers who source those deals, have about a year to get licensed and rebuild their offer paperwork.

We've tracked this wave for a while now. Texas, California, New York, Georgia, and others have each bolted TILA-style disclosure onto commercial products that sit outside the federal Truth in Lending Act. Vermont borrows heavily from Texas's 2025 sales-based financing law and stacks its own conduct rules on top of the state's existing lender statute.

What counts as commercial financing

The statute defines "commercial financing" as either of two products.

Sales-based financing is a deal repaid as a percentage of sales or revenue, where the payment rises and falls with sales volume. The definition also catches fixed-payment deals that carry a true-up reconciliation back to a percentage of sales, as well as deals structured as a sale or assignment of future receivables, future revenue, or future sales.

A factoring transaction is an accounts receivable purchase: buying, transferring, assigning, or selling a legally enforceable claim for payment on goods supplied or services rendered that have been ordered but not yet paid. Buying receivables as part of the sale of a substantial amount of a business's assets doesn't count.

Who needs a license

A provider can't fund a Vermont recipient or extend a specific offer without a Vermont lender license. The definition of "provider" sweeps in anyone who solicits recipients or presents offers on behalf of a third party, so a broker working someone else's paper needs a loan solicitation license, and the funder behind it must be licensed or exempt. The solicitation definition runs long, covering brokering, arranging, placing, lead generation, and plain referrals.

Who's out

Four carve-outs. State and federal agencies and their instrumentalities, depository institutions, and financial institutions under § 11101(32), and sellers that finance their own goods or services. The rules also skip commercial financing transactions of $1 million or more that aren't primarily for personal, family, or household use. Anything primarily for personal, family, or household use flips the other way and gets treated as a consumer loan, picking up Vermont's consumer credit chapters.

The conduct rules that will reshape contracts

Three provisions will force edits to standard form agreements.

Automatic debits. A provider can't set up automatic debiting of a recipient's deposit account unless it holds a validly perfected, first-priority security interest in "the recipient's account" under Article 9. That language tracks Texas word for word. Texas regulators have read the parallel phrase to mean a first-priority interest in the recipient's accounts receivable rather than the deposit account itself. Vermont's regulator hasn't signaled yet whether it'll read the phrase the same way, and that reading drives how ACH repayment can be structured.

Confessions of judgment. Any commercial financing contract that contains a COJ provision, or anything similar, is void and unenforceable.

Vermont law, Vermont forum. Agreements with Vermont recipients are governed exclusively by Vermont law, disputes go to Vermont courts, and an arbitration clause can't require face-to-face proceedings outside the state. Choice-of-law, forum, and out-of-state arbitration clauses are unenforceable against the recipient, though the recipient can still hold the provider to them. The provider also picks up the arbitrator's fees and expenses.

Disclosures, with separate math for each product

Both products require a signed disclosure at the time of a specific offer, and the recipient must sign before the deal is finalized. Vermont joins California and New York in requiring an estimated APR, and it sets a different calculation for each product.

Sales-based financing uses Regulation Z's APR method under 12 C.F.R. § 1026.22, with the term and payments projected from sales volume under either a fixed historical method or an opt-in method. Factoring uses Regulation Z Appendix J, treated as a single advance, single payment transaction, with the discount taken on the face value of the receivables counted as the finance charge. Both forms also itemize the financing amount, the disbursement, the finance charge, the total repayment, other fees, and prepayment or payoff terms.

What this means to you

Funders and factors that touch Vermont merchants should open three workstreams now.

Licensing. File for the lender or loan solicitation license, and paper the third-party origination chain so every link is covered.

Contracts. Strip COJ language, square your ACH mechanics with whatever security interest the statute ends up requiring, and reset choice-of-law and arbitration terms for Vermont deals.

Disclosures. Build the sales-based financing and factoring offer forms on the two different APR methods, because one template won't serve both.

The July 1, 2027, effective date leaves some runway, and the Commissioner can write rules before then, including rules that may settle the security interest question. The applicability language reaches contracts entered into, modified, amended, or restructured on or after that date, so renewals of existing deals fall in scope too. We'll keep watching the rulemaking and update as the disclosure formats and the account-security reading come into focus.

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