
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 1166 (Valencia) - Fair Debt Settlement Practices Act

Version: July 7, 2025

Urgency: No

Hearing Date: August 18, 2025

Policy Vote: B. & F.I. 5 - 2, JUD. 11 - 1

Mandate: No

Consultant: Janelle Miyashiro

Bill Summary: AB 1166 expands the framework of the Fair Debt Settlement Practices Act (FDSPA) to include protections for commercial debtors, as specified.

Fiscal Impact:

- The Department of Financial Protection and Innovation (DFPI) anticipates absorbable costs to update staff guidance and trainings on the expansion of the FDSPA and to respond to questions regarding the changes proposed by this bill (Financial Protection Fund).
- Unknown ongoing fiscal impact to DFPI for their expanded consumer protection responsibilities for commercial debtors. While the total fiscal impact of this bill is unknown at this time, any impact on enforcement workload to the DFPI would depend on numerous factors, including the volume of complaints received and complexity of any subsequent investigations into commercial debt settlement providers. To the extent that this workload is significant, there may be enforcement cost pressures to DFPI.
- Unknown, potentially significant cost pressures to the state funded trial court system to adjudicate any civil cases filed as a result of this measure (Trial Court Trust Fund, General Fund). The fiscal impact of this bill to the courts will depend on many unknowns, including the number of cases filed and the factors unique to each case. An eight-hour court day costs approximately \$10,500 in staff in workload. If court days exceed 10, costs to the trial courts could reach hundreds of thousands of dollars. While the courts are not funded on a workload basis, an increase in workload could result in delayed court services and would put pressure on the General Fund to fund additional staff and resources and to increase the amount appropriated to backfill for trial court operations.

Background: The FDSPA regulates debt settlement providers and payment processors who provide services to consumer debtors, i.e., natural persons who incurred debt for personal, household, or family purposes. FDSPA complements the Rosenthal Fair Debt Collection Practices Act, which regulates debt collection practices by the creditors themselves as well as by third-party debt collectors. These regimes recognize that persons in debt can be uniquely vulnerable and susceptible to deceptive, abusive, and misleading business practices.

Proposed Law:

- Expands the consumer protection provisions of the FDSPA that currently exist for consumer debtors to commercial debtors.
- Defines a “commercial loan” as a loan of a principal amount of \$5,000 or more, or any loan under an open-end credit program whether secured by either real or personal property or both, or unsecured, the proceeds of which are intended by the borrower for use primarily for other than personal, family, or household purposes.
- Defines a “commercial debtor” as a person who owes commercial debt of \$500,000 or less and is responsible for paying that debt, and the person is not a business entity organized for profit with annual gross receipts of more than the annual gross receipt level established for a “small business,” as specified.
- Defines “commercial debt” as money, whether in principal, interest, fees, or other charges, that is due or owing or alleged to be due relating to one or more commercial loans.
- Makes other conforming changes, with the following distinctions between commercial and consumer debt:
 - A debt settlement provider’s obligation to provide FDSPA disclosures and an unsigned copy of the written contract no fewer than three calendar days prior to the execution, and the prohibition on communicating with the debtor’s creditors until five calendar days after full execution of a contract for debt settlement services, applies to consumer debtors but not commercial debtors.
 - With respect to acts deemed unfair, abusive, or deceptive, the existing prohibitions on requesting or receiving payment in advance for consumer debt settlement services, and the limitations on fees that may be charged, are not extended to commercial debt settlement services.
 - It is deemed an unfair, abusive, or deceptive practice for a debt settlement provider providing debt settlement services to a commercial debtor to collect or retain fees in excess of the difference between the amount owed at the time the commercial debt was enrolled in the service and the amount agreed pursuant to any settlement agreement between the commercial debt and the creditor to satisfy the commercial debt.

Related Legislation: AB 1405 (Wicks, Chapter 454, Statutes of 2021) established the FDSPA, which provides requirements and prohibitions related to debt settlement services and related payment processing services.

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