SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2116 (Schiavo) - Commercial financing

Version: July 2, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: B. & F.I. 6 - 0, JUD. 13 - 0
Mandate: Yes
Consultant: Janelle Miyashiro

Bill Summary: AB 2116 expands the scope of the California Financing Law to cover specified commercial financing transactions offered to small businesses and establishes requirements and prohibitions on commercial financing providers and brokers engaged in such transactions.

Fiscal Impact: The Department of Financial Protection and Innvoation (DFPI) estimates costs of $1.57 million in the first year and $1.46 ongoing (Financial Protection Fund) for an additional examiner, support staff, and one-time IT systems implementation expertise to implement the new licensure program. Annual assessment fees from licensees will help offset these ongoing administration and enforcement costs; however, actual revenues will depend on the number of licensees.

Background: The markets for commercial financing offer a variety of products that have different structures and terms, and the regulatory treatment of such products varies significantly under existing California law. Generally, there are financing products that fit neatly under legal definitions and interpretations as "commercial loans," and there are financing products that may not be considered "loans" but that serve a similar basic function – providing a business with funds (or some other asset) that is expected to be repaid in the future, along with interest or other finance charges. In most cases, providers of commercial loans are required to be licensed by DFPI and subject to oversight by the department pursuant to the CFL, unless the provider is exempt from the CFL, such as is the case for banks that are subject to different licensing or chartering laws. Non-loan commercial financing products, however, may be provided without a license and with significantly less oversight from DFPI.

Commercial financing providers are less regulated than financing providers that serve consumers, likely based on the assumption that commercial transactions occur between parties that have higher levels of sophistication and knowledge than those involved in consumer transactions. But in the case of small business owners, is this assumption valid? It seems likely that many small business owners have a similar level of financial literacy, legal knowledge, and bargaining power as a typical consumer, which would support a similar policy approach that establishes baseline rules and oversight of providers of commercial financing to small businesses.

Proposed Law:

- Extends the CFL to commercial financing transactions, beginning January 1, 2028.

- Prohibits a person from engaging in the business of a commercial financing provider or commercial financing broker without obtaining a license from the DFPI under the existing terms, and subject to the existing restrictions, for licensure under the CFL; a person may continue to engage in these businesses if the person submits a complete application for a license on or before January 1, 2028, and is awaiting approval or denial of the application.

- Subjects commercial financing providers and commercial financing brokers to the administrative and enforcement authorities provided by the CFL to the DFPI, with exceptions for specified provisions relating to businesses in more than one place of business or at more than one location.

- Defines the following relevant terms:

  - "Commercial financing" means an accounts receivable purchase transaction, including factoring, asset-based lending transaction, commercial loan, commercial open-end credit plan, or lease financing, intended by the recipient for use primarily for a purpose other than a personal, family, or household purpose; for purposes of determining the primary purpose of the financing, the provider may rely on any written statement of intended purposes signed by the recipient, as specified.

  - "Commercial financing broker" means a person who is engaged in the business of performing any of the following acts in connection with commercial financing made by a commercial financing provider, subject to specified exclusions:

    - Transmitting sensitive data about a prospective recipient to a commercial financing provider with the expectation of compensation in connection with making a referral.

    - Making a referral to a commercial financing provider under an agreement with the commercial financing provider that a prospective recipient referred by the person to the commercial financing provider meets certain criteria involving sensitive data.

    - Participating in a commercial financing negotiation between a commercial financing provider and prospective recipient.

    - Counseling, advising, or making recommendations to a prospective recipient about a commercial financing transaction based on the prospective recipient's sensitive data.

    - Participating in the preparation of commercial financing documents, including, but not limited to, commercial financing applications, other than providing a prospective recipient blank copies of commercial financing documents; however, transmitting information that is not sensitive data to a commercial financing provider at the request of a prospective recipient shall not, by itself, constitute participation in the preparation of commercial financing documents.

    - Communicating to a prospective recipient a commercial financing provider's commercial financing approval decisions.

        - Charging a fee to a prospective recipient for services related to a prospective recipient's application for a commercial financing transaction from a commercial financing provider.

    - "Commercial financing provider" means a person who extends a specific offer of commercial financing to a recipient, including, but not limited to, a nondepository institution that enters into a written agreement with a depository institution to arrange for the extension of commercial financing by the depository institution to a recipient via an online lending platform administered by the nondepository institution; the fact that a commercial financing provider extended a specific offer of commercial financing on behalf of a depository institution shall not be construed to mean that the commercial financing provider engaged in, or originated, that finding.

    - "Recipient" means a small business or small business owner who is presented a specific commercial financing offer by a commercial financing provider that is equal to or less than $500,000.

    - "Referral" means the introduction of a prospective recipient to a commercial financing provider, or the delivery of a prospective recipient's contact information to a commercial financing provider, for the purposes of making an introduction.

    - "Sensitive data" means any of the following:

        - A bank account number.

        - A bank statement.

        - A credit or debit card account number.

        - A credit score.

        - All of, or a portion of, a social security number.

        - Personal or business income, including information self-reported by the person.

        - A taxpayer or employer identification number.

    - "Small business" means a business entity organized for profit with annual gross receipts of no more than $16 million, or the annual gross receipt level as biennially adjusted by the Department of General Services, whichever is greater; a licensee may rely on any relevant written representation by the business entity for purposes of determining the entity's annual gross receipts.

- Exempts certain commercial financing providers and transactions, including providers regulated under other laws, certain secured transactions, and certain vehicle transactions.

- Provides that a commercial financing agreement is not enforceable unless one of the following applies:
  - The person providing the commercial financing transaction is a licensed commercial financing provider.
  - The person providing the commercial financing transaction has submitted a complete application on or before January 1, 2026, and is awaiting approval.
  - The commercial financing transaction was entered into prior to January 1, 2028.
- Prohibits a commercial financing provider or a commercial financing broker from doing any of the following:
  - Take a confession of judgment or any power of attorney at any time before a default by a recipient under the terms of a commercial financing transaction agreement or contract.
  - Include a provision in a commercial financing transaction agreement or contract that authorizes a commercial financing provider or a commercial financing broker to attach or garnish any of a recipient's money held in an account in a depository institution.
  - Include a provision in a contract or agreement with the recipient that limits or restricts the recipient from disclosing information that the recipient gains from the recipient's business activities with the commercial financing provider, including, but not limited to, terms and conditions of a product or service offered by the commercial financing provider.
- Provides that a commercial financing transaction found to be unconscionable under the Civil Code shall be deemed to be a violation of, and subject to the remedies specified in, the CFL.
- Requires a commercial financing broker to clearly and conspicuously display on their website the average and maximum annual percentage rates (APRs) for the commercial financing transactions facilitated by them in the most recent calendar year.
- Requires a commercial financing provider to file annually a report with the DFPI with information related to the type, size, and price of commercial financing transactions provided to recipients in the preceding calendar year.
- Codifies into the CFL the DFPI's existing regulation related to unfair, deceptive, and abusive acts and practices committed by a licensee in connection with a commercial financing transaction.
- Recodifies the existing Section 22807 of the Financial Code as Section 22808 of the Financial Code.

- Makes conforming changes to various general administrative and enforcement provisions within the CFL to reflect the addition of commercial financing transactions to the scope of the licensing law.

Related Legislation: SB 728 (Padilla, 2025) would have provided a registration program under the California Consumer Financial Protection Law for persons offering commercial financing or commercial financing brokerage services to California residents. SB 728 was held on the Suspense File in this committee.

SB 1482 (Glazer, 2024) would have provided a registration program under the CCFPL for persons providing commercial financing or commercial financing brokerage services to California residents. SB 1482 died on the Assembly inactive file.

SB 869 (Glazer, 2023) would have expanded the scope of the California Financing Law to cover specified commercial financing transactions offered to small businesses and would have established requirements and prohibitions on commercial financing providers and brokers engaged in such transactions. SB 869 was held on the Suspense File in this committee.

-- END --