CONCURRENCE IN SENATE AMENDMENTS
AB 2116 (Schiavo)
As Amended August 19, 2026
Majority vote

SUMMARY

This bill 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.

Senate Amendments
1) Requires licensure instead of registration with the Department of Financial Protection and Innovation (DFPI) for commercial finance providers and commercial finance brokers.

2) Delays implementation of licensure by six months to July 1, 2028.

COMMENTS

1) Background

The commercial financing landscape presents a diverse array of products with varying structures and terms, resulting in significantly disparate regulatory treatment under existing California law. Typically, financing products either align closely with legal definitions of "commercial loans" or exist as alternative products that, while not formally classified as loans, fulfill a functionally equivalent purpose—advancing capital or assets to a business for future repayment alongside interest or finance charges. In California, non-bank commercial loan providers are typically required to secure licensure from the Department of Financial Protection and Innovation (DFPI) and adhere to the California Financing Law (CFL). However, a regulatory gap exists for commercial financing products that fall outside the formal definition of a loan; these can currently be provided without a license and under significantly less DFPI oversight.

Baseline legal protections for small businesses within these markets are established by the California Consumer Financial Protection Law (CCFPL). Through the enactment of AB 1864 (Limón, Chapter 157, Statutes of 2020), the Legislature authorized the DFPI to promulgate regulations defining unfair, deceptive, and abusive acts and practices (UDAAPs) regarding commercial financing provided to small businesses, nonprofits, and family farms. The DFPI finalized these regulations in August 2023, thereby empowering the department to initiate enforcement actions against UDAAPs in small business financing sectors. This enforcement authority definitively carried over to the CFL in 2025 with the enactment of AB 825 (Limón, Chapter 355, Statutes of 2025).

Beyond these UDAAP provisions, the CCFPL further grants the DFPI authority to mandate the licensure of covered persons offering consumer financial products or services within the state.

2) Current oversight of commercial financing.

Current law does not impose the same degree of regulation of, or oversight for, transactions relating to non-loan financing products offered to businesses. As it stands, entities offering financing products of $500,000 or less have to make specified disclosures regarding the terms of the financial products.[1] This bill would broaden the scope of state oversight regarding commercial financing activities, extending regulatory authority beyond the current parameters established by the California Financing Law (CFL). The landscape of "commercial financing transactions" generally bifurcates into two distinct classifications: those formally designated as "commercial loans" under the CFL and those alternative products that fall outside this definition. Notable examples within the latter category include merchant cash advances, accounts receivable financing, invoice factoring, and various revenue-based financing products. While commercial financing providers may offer a portfolio that includes both CFL-compliant loans and non-loan products, current law limits the Department of Financial Protection and Innovation's (DFPI) oversight primarily to activities governed by the CFL, leaving non-loan financing transactions largely outside the department's existing regulatory reach.

3) *What this bill does.*

This bill proposes to expand DFPI oversight over a subcategory of commercial financing transactions that fall just out of reach of the CFL and meet certain requirements. First, the borrower must be a small business, which is defined as an entity organized for profit with no more than $16 million in annual gross revenue. Second, the commercial financing transaction is limited to $500,000. These parameters help tailor the bill in scope to the intended target of small business owners who may have less bargaining power or negotiations sophistication. For example, in seeking a $750,000 (three quarters million dollar) loan, it is far more likely that even if a business were smaller in size, it would not be unreasonable to assume that the small business owner has resources to secure legal advice to navigate the transaction.

As defined by this bill, a commercial financing transaction includes both loan and non-loan credit products. A provider or broker of a commercial loan is already required to be licensed under the CFL based on existing law, but this bill introduces several new conduct requirements that apply to commercial loans of $500,000 or less that are offered to small businesses. The requirements are reasonably tailored to protect small businesses from predatory practices, such as taking confessions of judgment. The proposed disclosure and reporting requirements make these financing markets more transparent, which has benefits for borrowers, fair competition, and focused supervision by DFPI.

According to the Author
Small businesses are the backbone of our economy, and they deserve a fair and transparent marketplace when seeking capital. Right now, traditional lenders operate under clear rules, but certain high-cost non-loan products — like merchant cash advances — function outside that framework. AB 2116 simply ensures consistent oversight so that all financing providers play by the same rules. This bill doesn't limit access to capital, rather it promotes transparency, strengthens accountability, and protects hardworking entrepreneurs from deceptive practices, helping our small businesses continue to grow and thrive.

Arguments in Support
"AB 2116 solves two problems:

1) *The "wild west" of small business brokering* – Today, brokers routinely "steer" small business owners into financing that pays the broker the highest fee while charging the small

[1] Fin.Code section 22802 and 22803.

business owner an unnecessarily high rate, echoing one of the causes of the subprime mortgage crisis. In fact, investigative reports have shown that many subprime mortgage brokers who lost their mortgage licenses simply moved over to the unregulated "wild west" of small business financing. AB 2116 empowers small business owners to make informed decisions and report bad actors, by establishing an oversight framework and transparency about the products and costs associated with the product that a commercial broker offers the small business owner on behalf of a high-cost commercial lender.

2) *Unfair practices in the financing shadows* - While small business lenders are subject to oversight by DFPI, similar products that purport not to be loans evade these requirements and operate in the shadows. Additionally, California's 2022 ban on "confessions of judgement" (SB 688) is easily circumvented by legal devices used to take money straight from a small business owner's bank account without legal recourse. And "confidentiality clauses" are used to bully a small business owner into keeping silent about their experience and unexpected costs. AB 2116 will catalyze fair lending to small businesses by preventing bad-actor financing companies from taking unfair advantage of their competition and of small business customers." - *California Association for Micro Enterprise Opportunity (Co-Sponsor)*.

Arguments in Opposition

"A. The Cost of Expanding Licensing

The DFPI has an existing backlog of pending CFL license applications. We respectfully ask the Committee to ensure the DFPI has sufficient resources and implementation guidance before expanding the CFL to license "commercial financing" providers and brokers. Expanding licensure to an entirely new segment of the commercial financing marketplace will require significant regulatory implementation by DFPI, including rulemaking, examinations, staffing, licensing infrastructure, and supervision. Based on recent news coverage about the cost of expanding the DFPI's licensing authority into new areas, we ask the Committee help ensure a successful implementation of expanded CFL licensing.

B. Striking Section 30 of AB 2116 would Expand CFL Licensing While Controlling Costs

RBFC supports expanding CFL licensing to include providers and brokers of sales-based financing. Expanded CFL licensing will allow the DFPI to utilize the CFL's infrastructure to protect California's small businesses and create a level playing field across the non-bank commercial financing marketplace.

However, Section 30 of AB 2116 goes beyond expanding CFL licensing. Section 30 would add an entirely new section to Division 9 of the Financial Code that applies to "Commercial Financing for Small Businesses." Adding Section 30 will unnecessarily add costs to implement AB 2116 with added complexity and overlapping definitions. We respectfully suggest that the committee limit the need for extensive rulemaking and other implementation costs by striking Section 30 of AB 2116."- *Revenue Based Finance Association*

FISCAL COMMENTS

The following is provided by the Senate Committee on Appropriations, reflecting amendments adopted on August 13, 2026. 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.

VOTES:

ASM BANKING AND FINANCE: 9-0-0
YES: Valencia, Chen, Dixon, Fong, Krell, Michelle Rodriguez, Blanca Rubio, Schiavo, Harabedian

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

ASSEMBLY FLOOR: 73-0-7
YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Tangipa, Valencia, Wallis, Ward, Wilson, Zbur, Rivas
ABS, ABST OR NV: Arambula, Bauer-Kahan, Chen, Gabriel, Celeste Rodriguez, Ta, Wicks

SENATE FLOOR: 38-0-2
YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Blakespear, Limón

UPDATED

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