

COMMENTS1) *Purpose*

According to the author:

AB 2425 increases transparency by requiring the Department of Financial Protection and Innovation (DFPI) to publish data on its revenues and expenditures, while also clarifying the methodology used to determine certain assessments and charges. This bill brings greater transparency to the DFPI by ensuring that licensees can clearly understand how funds are allocated, and how fees are justified.

2) *Background*

DFPI is the state financial services regulator, and the department conducts most of its activities through licensing or registration laws that are tailored to specified categories of financial services. These laws establish requirements that a person engaged in a specified activity must be licensed or registered with the department before engaging in such activity, establish the minimum requirements and procedures for obtaining a license, and regulate conduct related to the activity, such as mandatory, permissible, and prohibited behaviors, when providing the specified financial product or service. Except for institutions or activities that are regulated solely by the federal government, DFPI oversees a broad portfolio of financial service providers, including the following categories that are covered by this bill: broker-dealers and investment advisors, franchise investments, mortgage bankers, finance lenders and brokers, PACE program administrators, escrow agents, deferred deposit transaction providers (aka payday lenders), state banks, money transmitters, debt collectors, digital financial asset service providers, and registered covered persons who provide consumer financial products or services.

Licensing or registration programs administered by DFPI are intended to be fiscally self-sustaining; that is, the licensees or registrants bear the costs of the regulatory program with no additional support needed from the general fund. By 2024, and possibly earlier, the commissioner of DFPI recognized that several programs were structurally deficient: revenues were consistently insufficient to cover costs. In 2024, DFPI contracted with an independent accounting firm to conduct a fiscal and cost study of its programs. The resulting report identified structural deficits across most of the program analyzed.¹ A subsequent report by the Legislative Analyst's Office, which relied in part on the report from the independent accounting firm, identified cost and revenue factors that caused the deficits, including an increase in annual salary adjustments, startup costs for new programs enacted by the Legislature and Governor, static fee levels due to statutory limits that had not been amended in decades, and the loss of three large banks due to mergers or failure.²

As part of the 2025-26 budget, the Legislature and Governor enacted a budget trailer bill that increased the fees charged by several of the DFPI programs facing fiscal stress. As part of the Budget Act of 2025, control language was enacted that requires DFPI to report annually to the Legislature specified information related to the fiscal health of certain programs and, to extent permissible by law, to charge pro rata assessments to licensees or registrants to ensure that annual program expenses are fully recovered.

¹ <https://dfpi.ca.gov/wp-content/uploads/2024/11/Fiscal-and-CAP-Analysis-Report.pdf>

² <https://lao.ca.gov/Publications/Report/5025>

This bill seeks to codify in statute the reporting requirements included in the Budget Act of 2025. Additionally, the bill requires more granular reporting of program revenues. Different from the Budget Act of 2025, this bill requires DFPI to report the method of determining the assessments and charges related to any pro rata apportionment of cost recoveries.

LIST OF REGISTERED SUPPORT/OPPOSITION

Support

None received

Opposition

None received

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