

stDate of Hearing: April 23, 2026

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

AB 2558 (Berman) – As Introduced February 20, 2026

**SUBJECT:** Financial institutions: loans: interest rates

**SUMMARY:**

This bill prohibits the total amount charged to a customer for a deferred deposit transaction from exceeding the annual percentage rate (APR) set forth in the federal Military Lending Act and its implementing regulations.

Specifically, **this bill:**

Limits the total amount that a customer of a deferred deposit transaction can be charged to the annual percentage rate set forth, and calculated pursuant to the Military Lending Act and its implementing regulations.

**EXISTING LAW:**

*California*

- 1) Authorizes the Pilot Program for Increased Access to Responsible Small Dollar Loans (Pilot) within the California Financing Law (CFL) (Financial Code Sections 22365 et seq.). The following are key rules applied to consumer loans made pursuant to the Pilot:
  - a) Caps consumer loans under \$2,500 at interest rates which range from 12% to 30% per year, depending on the unpaid balance of the loan (Sections 22303 and 22304). In addition to the allowable interest charges, licensees may receive an administrative fee capped at the lesser of 5% of the principal amount of the loan or \$50 (Financial Code (Fin.Code) section 22305)
  - b) Permits approved licensees to make a loan with a bona fide principal amount of at least \$300, but less than \$7,500. Interest rates are capped at the lesser of 36% or 32.75% plus the prime rate for the unpaid principal balance up to \$1,000, and the lesser of 35% or 28.75% plus the prime rate for the unpaid principal balance in excess of \$1,000 (Fin. Code section 22370(a) and (b)).
  - c) Provides that a licensee may charge an administrative fee in an amount not to exceed 7% of the principal amount, or \$90, whichever is less, on a first loan, and 6% of the principal amount, or \$75, whichever is less, on a second or subsequent loan. A licensee may not charge an underwriting fee more than once in any four-month period, and no administrative or underwriting fee may be charged in connection with a loan refinance unless at least eight months have elapsed, as specified (Fin. Code section 22370(c)).
- 2) The California Deferred Deposit Transaction Law (CDDTL) generally regulates deferred deposit transactions. (Fin.Code section 23000 et seq.) The following are key rules applied to consumer loans made pursuant to the CDDTL:

- a) Defines “Deferred deposit transaction” to mean a transaction whereby a person defers depositing a customer’s personal check until a specific date, pursuant to a written agreement for a fee or other charge. (Fin.Code section 23001(a))
- b) Defines “licensee” to means any person who offers, originates, or makes a deferred deposit transaction, who arranges a deferred deposit transaction for a deferred deposit originator, who acts as an agent for a deferred deposit originator, or who assists a deferred deposit originator in the origination of a deferred deposit transaction. Exceptions specified. (Fin.Code section 23001(d))
- c) Permits a licensee to defer the deposit of a customer’s personal check for up to 31 days. (Fin.Code section 23035(a))
- d) Prohibits the face amount of the check from exceeding three hundred dollars (\$300). (Fin.Code section 23035(a))
- e) Prohibits a licensee from charging more than an additional \$15 for a returned check, or collecting any collateral in conjunction with the transaction. (Fin.Code section 23035(c)(2) and (5))
- f) Prohibits a licensee from charging more than 15% of the face amount of the check. (Fin.Code section 23036(a))
- g) Prohibits a licensee from accepting or using the same check for a subsequent transaction, or permit a customer to pay off all or a portion of one deferred deposit transaction with the proceeds of another. (Fin.Code section 23037(a))
- h) Prohibits a licensee from accepting more than one check for a single deferred deposit transaction. (Fin.Code section 23037(g))

### *Federal*

- 1) Prohibits a creditor from imposing an annual percentage rate of interest greater than 36% with respect to the consumer credit extended to a covered member or a dependent of a covered member. (10 United States Code (U.S.C.) section 987)
- 2) Provides for the calculation of the maximum APR for open or closed ended credit under the Military Lending Act. (32 Code of Federal Regulations (C.F.R.) Part 232)
- 3) Establishes the Federal Credit Union Act (12 U.S.C. section 1757(5)) which authorizes the National Credit Union Administration (NCUA) to provide payday alternative loans (PALs). Key requirements of PALS:
  - a) The principal of the payday alternative loan is not less than \$200 or more than \$1,000;
  - b) The payday alternative loan has a minimum maturity of one month and a maximum maturity of six months;
  - c) The federal credit union does not make more than three payday alternative loans provided under either this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section in any rolling six-month period to any one borrower and does not make more than one payday

alternative loan provided under either this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section at a time to any borrower;

- d) The federal credit union does not rollover any payday alternative loan provided under this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section, provided that the prohibition against rollovers does not apply to an extension of a payday alternative loan term within the maximum loan term set forth in paragraph (c)(7)(iii)(A)(3) of this section that does not include any additional fees assessed or extend additional credit to the borrower;
- e) The federal credit union fully amortizes the payday alternative loan;
- f) The federal credit union requires the borrower to be a member of the credit union for at least one month before receiving a payday alternative loan provided under this paragraph (c)(7)(iii); and
- g) The federal credit union charges a reasonable application fee to all members applying for a new payday alternative loan offered under this paragraph (c)(7)(iii) that reflects the actual costs associated with processing the application, but that in no case exceeds \$20. (12 C.F.R. section 701.21 (c)(7)(iii))

**FISCAL EFFECT: Unknown. This bill is keyed Fiscal by Legislative Counsel.**

## COMMENTS:

### 1) Purpose

#### *Statement from the Author*

“AB 2558 would protect Californians from payday loans that do not offer a real solution for cash-strapped individuals and families. The unfortunate reality is that payday loans trap Californians living paycheck to paycheck in a cycle of reborrowing, leaving them worse off than when they started. By extending the same rate cap that is available to our military servicemembers, AB 2558 would protect all Californians from this debt cycle that drains households of hundreds of millions of dollars in fees.

Further, there is precedent in California for reining in predatory lending that similarly created debt traps for families. In 2019, Governor Newsom signed AB 539 (Limón), which barred payday lenders from charging high interest rates on loans between \$2,500 and \$10,000.

With unprecedented federal cuts to food, health care, and affordable housing programs, as well as the Legislature’s prioritization of affordability, now is the time to ensure Californians are not exploited by predatory lending practices when there are existing alternatives priced at or below the rate cap in this bill.”

#### *Arguments in Support*

“With unprecedented federal cuts to food, health care, and affordable housing programs, as well as the Legislature’s prioritization of affordability, now is the time to ensure Californians are not exploited by predatory lending practices when there are existing alternatives priced at or below 36% APR. These alternatives include those offered by:

- Mainstream banks for account holders called “balance” or “small-dollar” loans that charge affordable fees on loans payable over several months,
- Credit unions that routinely provide small unsecured installment loans and “payday alternative loans,”
- Community Development Financial Institutions (CDFIs) and nonprofit lenders that offer small emergency loans with affordable rates and terms,
- California licensed lenders that make personal loans to borrowers with low credit scores under 36% APR,
- Employer and union hardship programs that provide wages or cash assistance directly and without a third-party lender, and
- Nonprofit emergency assistance programs.

By extending the well-tested Military Lending Act rate cap to California payday lending, AB 2558 would protect cash-strapped families, including parents with lower incomes or those living in high-cost communities, young adults just starting out and balancing student loans and high rents, seniors, those with limited incomes, and people who receive government assistance, such as people with disabilities, from debt cycles that drain households of hundreds of millions of dollars in fees. As of 2024, 21 other states as well as the federal government have stepped in on behalf of their residents and military servicemembers to stop the payday loan debt cycle. AB 2558 would allow California to do the same.”--Center for Responsible Lending (Sponsors)

### Arguments in Opposition

“California has historically balanced consumer protection with consumer access by requiring licensing, examinations, disclosures, recordkeeping, complaint processes, and enforcement. AB 2558 chooses a different path: it sets a price structure for short-term credit that cannot support the cost of making and servicing small-dollar workplace loans through a regulated storefront model. This bill would force regulated providers to shut down, displacing consumers instead of protecting them.

AB 2558 replaces regulation with eradication. It will close licensed storefronts, reduce community transaction services, and push borrowers into non-state regulated alternatives. California can do better than a bill that pretends demand disappears when supply is outlawed”--Community Choice Financial

### **1) Background**

Existing California law, the Deferred Deposit Transaction Law (DDTL), permits licensees to impose significant fees on short-term loans, necessitating a single lump-sum repayment upon the borrower's receipt of their next income. For Californians navigating the fiscal challenges of housing, healthcare, and basic necessities, this balloon payment often creates a significant budgetary deficit, compelling families to either compromise on essential needs or enter into subsequent transactions. AB 2558 seeks to mitigate these financial pressures by capping the interest and fees associated with such deferred deposit transactions.

The Department of Financial Protection and Innovation (DFPI) characterizes a payday loan as a high-cost, short-term obligation where the lender utilizes a post-dated check or electronic debit to recover the full loan amount and associated fees within 31 days. Under current statutes, the face amount of the check is limited to \$300, with fees capped at 15%, effectively limiting the consumer to a maximum loan of \$255 in exchange for a \$45 fee. While the nominal fee may appear modest, the abbreviated duration of these loans results in an exorbitant annual percentage rate (APR). A \$45 fee on a two-week loan equates to an APR of 460%, a figure that vastly exceeds the typical 4% to 7% APR for auto loans or the average credit card APR of 21.52% reported by the Federal Reserve in February 2026. Consequently, APR serves as a critical metric for exposing the true cost of credit. (Although payday lenders disagree citing the fact that these are 31 day loans with no accrual of interest over time.)

Payday lenders target borrowers of color, in part by concentrating their locations in communities of color.<sup>1</sup> Indeed, the communities most affected by redlining are the same who are saturated by payday lenders today. Payday lenders in California were found 2.4 times more concentrated in African American and Latino communities, even after controlling for income and a variety of other factors.<sup>2</sup> Using data from the California Department of Financial Protection and Innovation, Center for Responsible Lending (CRL) has determined that the Assembly Districts with the highest Latino/Hispanic percent of residents also have the highest rate of repeat borrowing, more than the state average of 6.6 loans per borrower. The same is true of districts with high percentages of Black residents and Asian residents.

In 2006, Congress passed and George W. Bush signed the Military Lending Act, which established a 36% interest rate cap for loans made to active-duty servicemembers and certain members of their families. While many payday lenders have subsequently exited this market, U.S. Department of Defense research confirms that responsible small-dollar products from banks, credit unions, and community-based lenders continue to serve the military community effectively under these rate protections.

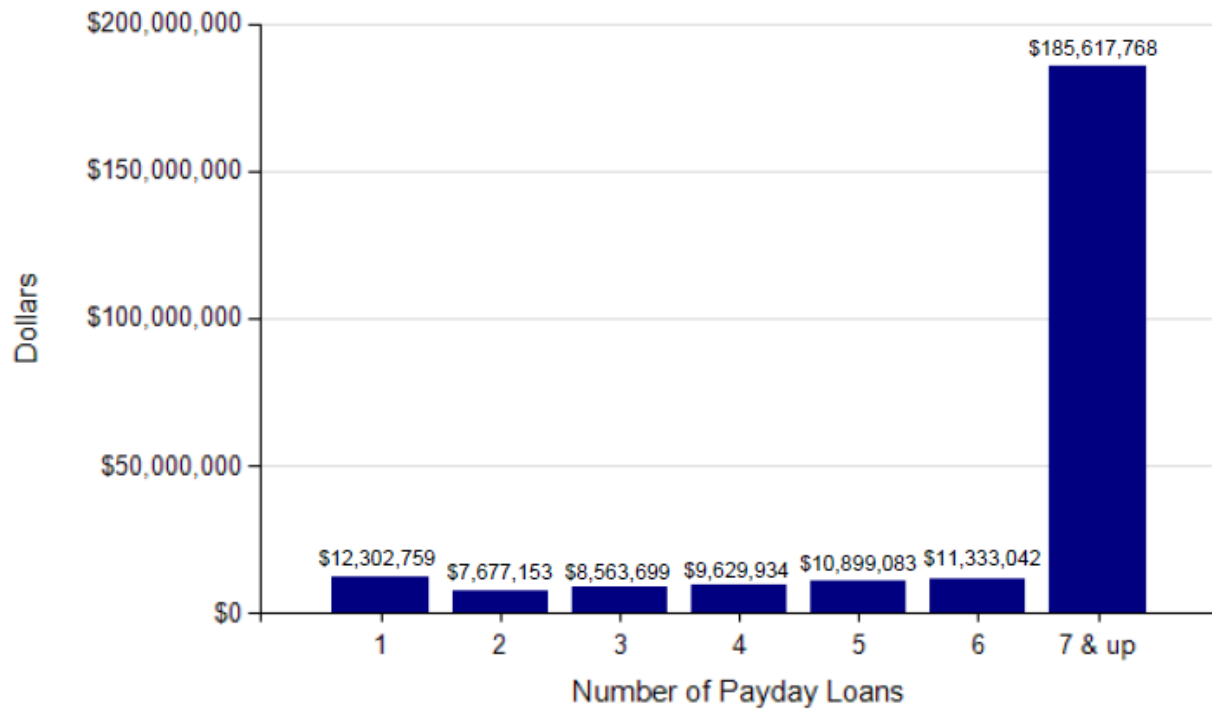
The driving source profitability for the payday business model is in the repetition of customers. A 2024 DFPI report on payday lenders found that lenders charged approximately \$246 million in fees on payday loans originated in 2024. Of that total, 75.45% – or \$185.6 million – came from customers who took out seven or more payday loans during the year.<sup>3</sup> Said another way, if you took away the swath of people who use payday seven times or more in a year, the lenders would only make a quarter of their annual fees.

---

<sup>1</sup> See, e.g., Delvin Davis, et al., *Race Matters: The Concentration of Payday Lenders in African-American Communities in North Carolina*, Center for Responsible Lending (2005), [http://www.responsiblelending.org/north-carolina/nc-payday/research-analysis/racematters/rr006-Race\\_Matters\\_Payday\\_in\\_NC-0305.pdf](http://www.responsiblelending.org/north-carolina/nc-payday/research-analysis/racematters/rr006-Race_Matters_Payday_in_NC-0305.pdf) (finding that, even when controlling for a variety of other factors, African-American neighborhoods had three times as many payday lending stores per capita as white neighborhoods in North Carolina in 2005); Assaf Oron, *Easy Prey: Evidence for Race and Military Related Targeting in the Distribution of Payday Loan Branches in Washington State*, Department of Statistics, University of Washington (2006) (concluding based on a study of Washington State payday lenders that “payday businesses do intentionally target localities with a high percentage of African Americans.”).

<sup>2</sup> Li, et al., *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California*, Center for Responsible Lending (2009), <http://www.responsiblelending.org/payday-lending/research-analysis/predatory-profiling.pdf>.

<sup>3</sup> “Annual Report of Payday Lending Activity Under the California Deferred Deposit Transaction Law” *DFPI* (2024) at 29.

**Chart 16: Payday Loan Transaction Fees per Financial Code section 23036(a)***Source: Survey questions 75-81*

## 2) Learning from Other States

### a. Results for Consumers

As of 2024, 21 states and the District of Columbia have enacted a 36% APR cap or prohibited payday lending entirely. In 2023, Minnesota became the 21st state to set an interest rate cap at 36% on payday loans. Prior to the law's passage, payday lenders in Minnesota charged an average APR of 220% on loans of \$500 or less. In 2022, the average payday loan borrower in Minnesota had six loans, with nearly a third of borrowers taking out 10 or more loans per year.<sup>4</sup> CRL conducted five virtual focus groups with a total of 14 participants from Minnesota a year after implementation of the rate cap. This report defined using payday loans as taking out a storefront payday loan. The report acknowledges "The experiences the participants shared mirror trends in other research literature about payday lending but may not be representative of all borrowers, due to limited size and geographic scope. Nonetheless, borrowers provided valuable insights into the harms and consequences of payday loan use, as well as strategies for managing financial precarity without payday loans."<sup>5</sup>

The findings from the report show: 1) storefront payday lending exacerbated financial instability and imposed significant emotional burdens on Minnesota borrowers, 2) borrowers demonstrates adaptive strategies in the absence of storefront payday lending, 3) online lenders continue

<sup>4</sup> Constantine, L. et al. (2026, January) "Escape from the Debt Trap: Relief for Minnesota After State Ends Payday Lending" *Center for Responsible Lending and Exodus Lending* pp 6.

<sup>5</sup> *Id.* at 13.

illegally targeting financially vulnerable Minnesotans, and 4) borrowers express relief that storefront payday lending is gone and show strong support for continued regulation.

*b. Impact on Access to Capital and Alternatives*

Opposition raises concerns over leaving communities without access to the loans they rely upon, especially in rural districts—a serious concern in these volatile economic times. For example, after Illinois’ Predatory Loan Prevention Act (PLPA) took effect in March 2021 limiting the maximum APR on consumer loans to 36% inclusive of fees and charges, no storefront payday stores exist in the state.

A January 2024 report<sup>6</sup> The Woodstock Institute found that some lenders that charged 36% APR or less before the PLPA saw an increase in applications and originations. Capital Good Fund (Good Fund) is a nonprofit, U.S. Treasury-certified Community Development Financial Institution (CDFI). As of January 2024, the average interest rate for a Good Fund loan is 13%, and borrowers’ average credit score is around 580. Good Fund’s repayment rate is 96.7%. Within days of the PLPA going into effect, Good Fund saw an increase in daily application volume of about 70%, with a similar increase in loan closings.

In the same report, analysis provided by LendingClub, a prominent for-profit fintech lender, indicated that following the implementation of the PLPA, Illinois residents who previously relied on high-cost credit exceeding 36% APR successfully transitioned to lower-cost alternatives. LendingClub offers personal loan rates that remain strictly below the 36% APR threshold, with average costs significantly lower than that cap. According to an evaluation of data through September 26, 2023, LendingClub recorded an 11% surge in applications within Illinois relative to the other 49 states among borrowers with credit scores below 660 seeking loans under \$4,000. This increased demand was even more pronounced for smaller loan amounts typical of high-cost lenders; specifically, applications for loans under \$2,000 saw a 23% increase.

LendingClub has effectively integrated former high-cost loan borrowers into its standard customer base. As these individuals shifted their applications to LendingClub, the firm's approval rate in Illinois remained consistent with other states, suggesting that these new applicants were creditworthy borrowers rather than consumers with no other recourse. This suggests that the physical proximity of the high-costs storefront options played a part of consumer’s use of the payday lending product.

Additionally, many other app based products have come to fruition, such as Chime’s \$5/100 up to \$500<sup>7</sup> and CashApp Borrow (Borrow). Eligibility for Borrow for most people does require depositing at least \$300 in paychecks each month, or link to an external account that receives at least \$500 in monthly deposits. Borrow allows users to take as little as \$20 to their limit, up to \$500, at a flat fee. A PEW article reported data from the National Credit Union Administration (NCUA) shows that credit unions issued \$227 million in loans through the administration’s

---

<sup>6</sup> Cowan, S. et al. (2024, January) “Illinois’s Predatory Loan Prevention Act: The Impacts of the State’s 36% Rate Cap” *The Woodstock Institute*.

<sup>7</sup> According to Chime: Chime’s Instant Loans has no late fees or compound interest, just a fixed interest rate of \$5 for every \$100 borrowed, paid back in three monthly payments of \$35.00 per \$100 borrowed (29.76% annual percentage rate). <https://www.chime.com/newsroom/news/chime-introduces-instant-loans/> Last visited 4/19/26/

Payday Alternative Loan (PAL) program in 2022, topping the previous record of \$174 million, set in 2019, by 30%<sup>8</sup>. The article notes:

“This increase in affordable, small-dollar credit benefits consumers, because each loan represents hundreds of dollars in potential savings compared with high-cost loans from payday, rent-to-own, or other similar lenders. The growth means that more borrowers with limited or no credit history have been able to borrow funds quickly to cover urgent expenses and avoid more costly alternatives. Expanded automation has helped drive recent increases.

The PAL program, which began in 2010 and was expanded in 2019 to boost consumers’ access to affordable small loans limits application fees to a \$20 maximum and interest rates to a 28% maximum. So borrowing \$500 for three months under this program costs no more than \$44, compared with an average of \$450 to borrow that same amount via payday loans.”<sup>9</sup>

Currently in California, no fewer than 53 financial institutions—comprising mainstream banks, credit unions, community development financial institutions (CDFIs), and various nonprofit entities—already provide small-dollar installment loans to Californians with limited or non-existent credit histories at rates strictly below 36% APR, with repayment terms extending three months or longer. Notably, several prominent providers, such as Oportun, do not mandate credit checks or proof of citizenship for eligibility.

A DFPI report from 2024 indicates that licensees under the California Financing Law (CFL) originated 1.2 million loans statewide, with an average principal of \$596 and interest rates ranging from 15% to 35%, representing a total lending volume of \$252.3 billion.<sup>10</sup>

## COMMITTEE AMENDMENTS

The author and other stakeholders have agreed to remove Sec.1 of this bill.

~~22303. Every (a) A licensee who lends any sum of money may less than two thousand five hundred dollars (\$2,500) shall not contract for and or receive charges at a rate not exceeding the sum of the following: an annual percentage rate set forth in, and calculated pursuant to, the Military Lending Act (10 U.S.C. Sec. 987) and its implementing regulations (32 C.F.R. Part 232) as in effect on January 1, 2026.~~

~~(a) Two and one-half percent per month on that part of the unpaid principal balance of any loan up to, including, but not in excess of two hundred twenty-five dollars (\$225).~~

~~(b) Two percent per month on that portion of the unpaid principal balance in excess of two hundred twenty-five dollars (\$225) up to, including, but not in excess of nine hundred dollars (\$900).~~

---

<sup>8</sup> <https://www.pew.org/en/research-and-analysis/articles/2023/03/31/credit-union-small-dollar-loan-volume-hit-new-high-in-2022#:~:text=This%20increase%20in%20affordable%2C%20small,is%20meeting%20a%20clear%20need.> Last visited 4/19/26.

<sup>9</sup> *Id.*

<sup>10</sup> “Annual Report of Operation of Finance Lenders, Brokers, and PACE Administrators Licensed Under the California Financing Law” *DFPI* (2024).

~~(c) One and one-half percent per month on that part of the unpaid principal balance in excess of nine hundred dollars (\$900) up to, including, but not in excess of one thousand six hundred fifty dollars (\$1,650).~~

~~(d) One percent per month on any remainder of such unpaid balance in excess of one thousand six hundred fifty dollars (\$1,650).~~

~~(b) This section does not apply to any loan of a bona fide principal amount of two thousand five hundred dollars (\$2,500) or more as determined in accordance with Section 22251.~~

## REGISTERED SUPPORT / OPPOSITION:

### Support

**Last verified 4/18/26**

Alliance for Boys and Men of Color  
 Asian Americans Advancing Justice Southern California  
 Black Californians United for Early Care and Education  
 Black Ece  
 CA League of United Latin American Citizens (LULAC)  
 California Coalition for Community Investment (CCCI)  
 California Federation of Labor Unions, Afl-cio  
 California Immigrant Policy Center  
 California Low-income Consumer Coalition  
 California Rural Legal Assistance Foundation  
 California Women's Law Center  
 Cameo - California Association for Micro Enterprise Opportunity  
 Cameo Network  
 Center for Responsible Lending  
 City of Lemon Grove  
 Coalition of California Welfare Rights Organizations  
 Community Legal Aid Social  
 Community Legal Services in East Palo Alto  
 Consumer Federation of America  
 Consumer Federation of California  
 Consumer Reports  
 Consumer Watchdog  
 Consumers for Auto Reliability and Safety  
 Courage California  
 Dolores Huerta Foundation  
 East Bay Community Law Center  
 Economic Security California Action  
 Economic Security Project Action  
 El/la Para Trans Latinas  
 End Child Poverty CA  
 End Poverty in California (EPIC)  
 Freefrom

Giving Credit  
Glide Foundation  
Haven Services  
Housing and Economic Rights Advocates (HERA)  
Law Foundation of Silicon Valley  
Legal Aid Society of San Diego  
Legal Assistance for Seniors  
Mbolden Change (formerly My New Red Shoes)  
Mypath  
National Consumer Law Center  
National Council of Jewish Women Los Angeles  
Neighborhood Legal Services of Los Angeles County  
Neighborhood Partnership Housing Services INC  
Nextgen California  
One Fair Wage  
Orange County United Way  
Public Counsel  
Rise Economy  
Sage Financial Solutions  
Small Business Majority  
The Academy of Financial Education  
The Community College Foundation  
The Greenlining Institute  
United Parents and Students  
Ventures  
Wealth Reclamation Academy of Practitioners (WRAP)  
Western Center on Law & Poverty, INC.  
Western Center on Law and Poverty  
Women's Foundation California  
Women's Foundation of California  
Young Invincibles

**Opposition**

**Last verified 4/18/26**

California African American Chamber of Commerce  
California Financial Service Providers  
Cb Communications  
Community Choice Financial  
Continental Currency Services, INC.  
Designed by Duchess  
Faith in the Valley  
Kc Sports & Entertainment  
Memorable Moments Travel  
National Action Network Sacramento  
National Action Network Western Region  
Online Lenders Alliance

Pacific Rim Alliance Corporation - Checkmate  
Purpose Financial

*Note: A large number of unverified individual OPPOSE letters were submitted but cannot be reliably tallied due to the letters being submitted by three or four of the same individuals on behalf of other people, many with no city and zip code information, and some duplicate submissions.*

**Analysis Prepared by:** Desiree Nguyen Orth / B. & F. / (916) 319-3081