Date of Hearing: January 15, 2026

ASSEMBLY COMMITTEE ON JUDICIARY
Ash Kalra, Chair
AB 501 (Papan) – As Amended January 5, 2026

SUBJECT: LAWSUITS, LIENS, AND OTHER ENCUMBRANCES

KEY ISSUE: SHOULD ADDITIONAL FINANCIAL PENALTIES BE IMPOSED ON PERSONS FOUND LIABLE FOR FILING FRAUDULENT LIENS PURSUANT TO THE UNIFORM COMMERCIAL CODE?

SYNOPSIS

The modern iteration of the Uniform Commercial Code was established in the 1950s to guide commercial transactions, typically those between businesses. Among the litany of commercial interactions governed by the Uniform Commercial Code, is the creation and enforcement of commercial debts. Because the Uniform Commercial Code is generally meant to apply to two sophisticated business entities, the process to file a lien to recover a debt was designed to be far simpler than traditional liens. Given that most business entities are represented by legal counsel when drafting the original contracts governing business transactions, commercial liens lack some of the safeguards provided to other liens authorized elsewhere in existing law. A person seeking to file a lien under the Uniform Commercial Code need simply file a "filing statement" with the Secretary of State who then maintains the record in a database that can be accessed by lenders and other financial institutions when the debtor seeks to obtain a new line of credit.

Unfortunately, as America's political climate has grown more contentious, the number of fraudulent Uniform Commercial Code liens filed against judges, candidates, and elected officials has skyrocketed. Given the relative ease with which these liens can be filed, they have become a favored tool of "sovereign citizens" and conspiracy theorists seeking to harm political figures of the opposing political party. In fact, the National Association of Secretaries of State now publishes guidance to all fifty Secretaries of State to assist in combating the rise in fraudulent liens.

This bill represents California's first attempt to combat the rising problem of fraudulent commercial liens. First, this bill imposes a notice requirement on the Secretary of State to notify the alleged debtor of the lien's existence within 21 days of the original filing. Given that these liens must be removed through judicial processes, the bill defers the payment of specified court fees to the conclusions of the case, and if a party is determined to have filed a fraudulent lien, automatically shifts all legal costs and fees onto the perpetrator. Finally, this bill triples the existing law's civil penalties for fraudulent liens from $5,000 to $15,000. This measure has no registered support or opposition and will be heard in the Banking & Finance Cmte prior to this hearing.

SUMMARY: Enhances the penalties imposed on those found to have filed a fraudulent lien pursuant to the Uniform Commercial Code. Specifically, **this bill**:

1) Requires the Secretary of State to notify the debtor named in the financing statement, filed pursuant to the Uniform Commercial Code, within 21 days after the financing statement is filed.

2) Provides that any court fees incurred by a debtor are to be paid at the end of the judicial proceeding brought to remove a fraudulent lien and that any party deemed to have filed the fraudulent lien be liable to the debtor for three times all of the court fees paid.

3) Increases the civil penalties imposed on a person found to have filed a fraudulent lien to $15,000.

EXISTING LAW:

1) Establishes, pursuant to the Uniform Commercial Code, the rules regarding secured commercial transactions. (Commercial Code Section 9101 *et seq.*)

2) Defines, for the purpose of the Uniform Commercial Code, "lien creditor" to mean any of the following:

   a) A creditor that has acquired a lien on the property involved by attachment, levy, or the like;

   b) An assignee for benefit of creditors from the time of assignment;

   c) A trustee in bankruptcy from the date of the filing of the petition; or

   d) A receiver in equity from the time of appointment. (Commercial Code Section 9102 (a)(52)(A).)

3) Defines, for the purpose of the Uniform Commercial Code, "obligor" to mean a person that, with respect to an obligation secured by a security interest in or an agricultural lien on the collateral, (i) owes payment or other performance of the obligation, (ii) has provided property other than the collateral to secure payment or other performance of the obligation, or (iii) is otherwise accountable in whole or in part for payment or other performance of the obligation. (Commercial Code Section 9102(a)(59).)

4) Outlines the rules regarding the perfection of a security interest and specifies which agency within this state's government the imposition of a lien on a secured interest. (Commercial Code Section 9301 *et seq.*)

5) Provides for the procedures for filing a lien against a secured interest pursuant to the Uniform Commercial Code, including the requirement that specified financing statements must be transmitted to the Secretary of State in order to perfect a security interest in collateral. (Commercial Code Section 9501.)

6) Authorizes a person subject to a lien filed pursuant to 5) to file in the filing office an information statement with respect to a record indexed there under the person's name if the person believes that the record is inaccurate or was wrongfully filed. (Commercial Code Section 9518.)

7) Outlines the roles and responsibilities imposed on the filing office that collects the record of a lien filed pursuant to the Uniform Commercial Code. (Commercial Code Section 9519.)

8) Provides that upon the default of an obligor, a lien creditor may do the following:

a) Reduce a claim to judgment, foreclose, or otherwise enforce the claim, security interest, or agricultural lien by any available judicial procedure; or

b) If the collateral is documents, proceed either as to the documents or as to the goods they cover. (Commercial Code Section 9601.)

9) Provides that if it is established that a secured party is not proceeding in accordance with the Uniform Commercial Code, a court may order or restrain collection, enforcement, or disposition of collateral on appropriate terms and conditions. (Commercial Code Section 9625(a).)

10) Holds that a secured party is liable for damages in the amount of any loss caused by the failure to comply with the Unfirm Commercial Code. (Commercial Code Section 9625(b).)

11) Prohibits a person from filing or recording, or directing another to file or record, a lawsuit, lien, or other encumbrance, including a notice of lis pendens, against another person or entity knowing it is false, with the intent to harass the person or entity or to influence or hinder the person in discharging his or her official duties if the person is a public officer or employee. (Code of Civil Procedure Section 765.010(b).)

12) Authorizes a person or entity whose property is subject to a lien or encumbrance in violation of 11) to petition the superior court of the county in which the person or entity resides or in which the property is located for an order, which may be granted ex parte, directing the lien or other encumbrance claimant to appear at a hearing before the court and show cause why the lien or other encumbrance should not be stricken and that other relief should not be granted. (Code of Civil Procedure Section 765.010(c).)

13) Provides that any lien or encumbrance claimant who records or files, or directs another to record or file, a lawsuit, lien, or other encumbrance in violation of 11) is liable to the person subject to the lawsuit or the owner of the property bound by the lien or other encumbrance for a civil penalty of up to five thousand dollars ($5,000). (Code of Civil Procedure Section 765.040.)

14) Defines, generally, a lien as a charge imposed in some mode other than by a transfer in trust upon specific property by which it is made security for the performance of an act. (Civil Code Section 2872.)

FISCAL EFFECT: As currently in print this bill is keyed fiscal.

COMMENTS: The Uniform Commercial Code (UCC) generally dictates the laws governing commercial transactions in California. Because the code is "universal," virtually identical provisions have been adopted in every state in the nation, permitting businesses to operate across state lines under a standardized set of laws. One aspect of the UCC involves the creation, regulation, and recovery of secured debts. Typically, when a commercial debt has not been satisfied, the creditor may seek to impose a lien against the debtor by filing a claim with the Secretary of State. This deviates from the other liens, including tax and mechanics liens, which are filed locally.

As a result of the unique process for commercial liens, the author notes that these liens are more vulnerable to abuse. Indeed, evidence suggests that in light of current political tensions roiling the country, commercial liens are now being utilized to harass judges, candidates, and elected officials over political disputes. This measure seeks to preserve the effectiveness and efficiency of the existing commercial lien process while simultaneously seeking to curb the abuse of the lien process for political gain. In support of this bill the author states:

> Assembly Bill 501 is a common sense, stepped approach to fix the recurring and frivolous weaponization of the UCC-1 filing process. Though filing a lien should remain an accessible tool for businesses and individuals seeking to complete a commercial transaction, bad actors are currently using the process to smear the name and credit of public officials and others. Unsuspecting victims are being thrust into debt with no way of protecting themselves; in my own district, I've received complaints from officials who have been victimized by such a scheme.
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> This bill would take a three-pronged approach to hold fraudulent lien filers accountable and ensure those targeted can take swift action. The bill requires the Secretary of State's office to immediately notify all individuals when named on a UCC-1 filing, giving them plenty of time to pursue a corrective course of action. The bill also moves court fees to the back end of litigation to ease the process of debtors going after the claimants and requires the guilty party to pay all court fees. The bill additionally raises the penalty for those found guilty of filing a fraudulent lien. Taken together, these reforms create a targeted, practical fix to the vulnerabilities in the current UCC-1 filing system and help protect Californians from misuse.

The Uniform Commercial Code's lien process. Given that the UCC regulates commercial transactions, as it relates to debt transactions between businesses, the law generally defers to the contract terms between businesses, so long as the contracts remain within the constraints of the UCC. Should a party to a commercial transaction fail to pay their debts or otherwise adhere to the terms of the agreement and should secured collateral have been part of the agreement the other party make seek to file a lien to enforce the debt. Given that many states utilize their Secretary of State's offices as the centralized location for incorporating businesses within the jurisdiction, the UCC provides that the Secretary of State is to be the default venue for filing liens stemming from transactions governed by the UCC. California is no exception to this standard. These filings, generally referred to as filing statements, are retained by the Secretary of State and may be accessed by financial institutions and other lenders to determine the creditworthiness of a specific business or individual. Unlike several other types of liens in existing law, UCC liens do not require notice to be transmitted to the debtor. A creditor simply needs to submit the filing statement and a nominal fee to the Secretary of State and the lien takes effect. While this approach generally makes sense in the context of transactions governed by the UCC, commonly transactions between two relatively sophisticated business entities, the existing system does present risks of fraud outside of that context given the lack of mandated notice to a debtor.

The sovereign citizen movement and the abuse of commercial liens. According to the National Association of Secretaries of State, beginning with the reemergence of the "sovereign citizen" movement during the Obama Administration, a growing number of fraudulent UCC liens were filed with Secretaries of State across the country by "sovereign citizens" in their attempt to "punish" judges and elected officials who they believed were derelict in upholding their oath of office. (*State Strategies to Subvert Fraudulent Uniform Commercial Code Filings,* National Association of Secretaries of State (Nov. 2025), at p 3, available at: https://www.nass.org/sites/default/files/reports/ucc-fraudulent-filing-report-november25.pdf.) In fact, a 2025 investigation by the Los Angeles Times discovered that many anti-government "sovereign citizens" organizations and other conspiracy theorists are now hosting online trainings to instruct sympathetic followers on how to file a UCC lien. (Melody Gutierrez, *With fake liens, antigovernment agitators aim to damage political opponents' credit, careers*, Los Angeles Times (July 30, 2025) available at: https://www.latimes.com/california/story/2025-07-30/fake-filings-real-consequences-how-paper-terrorism-is-burying-a-state-system-with-bogus-claims.) These trainings include information regarding how to incorporate terms commonly used in legitimate liens in order to ensure that the fraudulent liens can clear the automated review systems employed by many Secretaries of State to safeguard against fraud. (*State Strategies to Subvert Fraudulent Uniform Commercial Code Filings*, *supra*, at. 4.)

While removing a fraudulent lien from one's record may seem straightforward, the process can be expensive and time consuming. First, given the existing law's lack of a notice requirement to the alleged debtor, many victims are unaware a fraudulent lien was ever filed until they seek to make a major purchase that requires a credit check, including buying a car or a new home. Secondly, lacking a straightforward administrative remedy, many victims are forced to hire legal counsel and have the lien removed through court actions. Although the Code of Civil Procedure provides a relatively streamlined process to remove the lien, the legal process can strain the finances of even well-off public officials, and certainly distract the public official from their duty to serve the people of this state.

This bill. Following the recommendations of the National Association of Secretaries of States, dozens of states have sought to crack down on fraudulent UCC liens in recent years. Although the approaches vary from increased penalties for fraudulent filings to streamlining administrative remedies, states reflecting both sides of the political spectrum have moved to stop fraudulent liens. This bill represents California's first meaningful effort to address this problem. First, this bill requires California's Secretary of State to notify all persons or entities subject to a UCC lien of the lien's presence within 21 days of the filing of the financing statement. This enables a victim to address the lien before significant damage is inflicted on their personal credit. Secondly, this measure permits a victim to defer the payment of court fees until the conclusion of the legal process to remove the lien and shifts the legal fees onto the filer of the fraudulent lien if the court finds the lien is legally invalid. The bill provides the victim compensation up to three times their legal fees in order to defray the other costs associated with remedying the fraudulent lien's damage to one's personal credit, for example filing the court order with the three major credit reporting agencies. Finally, this measure triples the existing civil penalties for filing a fraudulent lien from $5,000 to $15,000.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Nicholas Liedtke / JUD. / (916) 319-2334