

Date of Hearing: January 22, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 501 (Papan) – As Amended January 5, 2026

Policy Committee: Banking and Finance
Judiciary

Vote: 8 - 0
12 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill requires the Secretary of State (SOS) to notify a debtor named in a lien filed under the Universal Commercial Code (UCC) and imposes new penalties on a person found liable for filing fraudulent liens.

Specifically, this bill:

- 1) Requires the SOS to notify a debtor named in a financing statement filed to perfect a lien under the UCC within 21 days after the statement is filed.
- 2) Requires court fees incurred by a debtor be paid at the end of certain judicial proceedings brought under the UCC, and requires a party deemed to have filed a fraudulent UCC lien be liable to the debtor for three times the amount of court fees paid.
- 3) Increases the maximum civil penalty, from \$5,000 to \$15,000, that may be imposed on a person who files a false lawsuit, lien, or other encumbrance against another person.

FISCAL EFFECT:

- 1) Costs of approximately \$2.2 million in the first year and \$1.8 million ongoing to the SOS to provide timely notice to debtors, including approximately \$1.1 million annually for printing, envelopes, and postage (General Fund). The SOS notes it receives approximately 600,000 financing statements and amendments per year and anticipates needing seven additional positions and information technology system modifications to provide the notification.
- 2) Potential ongoing cost savings of an unknown amount to the courts, to the extent increasing penalties for filing fraudulent liens decreases the practice and results in a commensurate reduction in court workload (Trial Court Trust Fund).

COMMENTS:

- 1) **Purpose.** According to the author:

[AB] 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...This bill would take a three-pronged approach to hold fraudulent lien filers accountable and ensure those targeted can take swift action.

- 2) **Background. *UCC Liens.*** The UCC generally governs commercial transactions in California. The code is “universal” because virtually identical provisions have been adopted in every state, allowing businesses to operate across state lines under a standardized set of laws. To perfect a lien under the UCC, the lienholder must pay a nominal fee and file a financing statement, known as the UCC-1 form, on a public record, generally with the SOS instead of the county recorder as is typical for most other types of liens. A UCC lien also differs from other types of liens because a UCC lien does not require the debtor be notified of the filing before the lien takes effect. The financing statement is retained by the SOS and may be accessed by financial institutions and other lenders to determine the creditworthiness of a business or individual. While this filing process works to streamline business transactions, the ease of filing also presents risk of fraud outside a business context.

Fraudulent Liens. According to the National Association of Secretaries of State, a growing number of fraudulent UCC liens have been filed with secretaries of state across the country by “sovereign citizens” in attempt to “punish” judges and elected officials alleged to be derelict in upholding their oath of office. The process of removing a fraudulent lien from one’s record can be expensive and time consuming. Since it is not necessary to notify the alleged debtor before filing a UCC lien, many are unaware a lien was ever filed until the debtor seeks to make a major purchase requiring a credit check. And, since there is no administrative remedy to remove the lien, the alleged debtor incurs legal expenses to remove the lien through the courts. This bill requires the SOS to notify a named debtor within 21 days of the filing of a financing statement to perfect a UCC lien. This bill also defers payment of court fees incurred by the debtor until the conclusion of the legal process to remove the UCC lien, makes the filer liable for triple the amount of court fees paid by an alleged debtor if the court finds the UCC lien to be fraudulent, and triples the existing civil penalty for filing any type of fraudulent lawsuit, lien, or other encumbrance.

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