

## ASSEMBLY THIRD READING

AB 501 (Papan)

As Amended January 5, 2026

Majority vote

**SUMMARY**

False UCC liens have been used to harass and dox businesses and public officials for decades, but more frequently today. This bill will modernize code sections addressing the foreseen problem of abuse of lien recordings that are 10 years old and 27 years old.

**Major Provisions**

- 1) Requires the Secretary of the State to notify the debtor named in a financing statement for a Uniform Commercial Code lien within 21 days of being filed,
- 2) Delays payment of court fees incurred by a debtor to the end of a judicial proceeding for enforcement of rights that may have been violated by a claimant,
- 3) Trebles all court fees that were paid by the debtor for violations of the Civil Code of Procedure (CCP) Section 765.010 under the UCC, and
- 4) Increases penalties from \$5,000 to \$15,000 for violations of CCP Section 765.010.

**COMMENTS***Background*

A lien is a legal claim used to assert a lender's right to collateral that is used to secure a debt in the event that the borrower fails to pay. Some commonly encountered liens are: a mechanic's lien (for laborers on the property they worked on), car lien (the right the lender has to the car's title until the loan is fully repaid), and for small businesses, a merchant cash advance lien (the finance company's claim against the business's receivables or assets to secure full repayment of the financing). Liens can arise contractually and statutorily.

A UCC lien is a reference to the Uniform Commercial Code (UCC); the federal code section under which liens for commercial transactions involving property and equipment are regulated. In order to perfect a lien (complete all necessary legal steps to make the lien binding and establish priority to the collateral over any subsequent lienholders), in the interest of due process, the lienholder must file a financing statement, known as the UCC-1 form, on a public record, such as the Secretary of State or county recorder<sup>1</sup> to create public notice.

*Commercial Credit Reporting v. Consumer Credit Reporting*

For businesses, a recorded UCC lien is reported on the business' credit report by a data furnisher. Data furnishers are multitudinous; creditors, landlords, banks, lienholders, and student loans providers are examples of different data furnishers. In addition to providing its own data about

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<sup>1</sup> The office in which the claimant files is determined based on the property type and the corresponding statute.

the subject of the report, some data furnishers scrape public records for information that gets reported, albeit, under strict requirements of the Fair Credit Reporting Act (FCRA) *if applicable*.

The commercial credit report, much like a consumer credit report, is used to determine the creditworthiness of a business or how leveraged a business may already be for financing. However, unlike consumer credit reports, business credit reports do not enjoy the same safeguards and dispute requirements as its consumer counterpart. When a lien is recorded on a business credit report, it communicates to users of that report that the business does not pay its debts, or that it is overleveraged. For example, if the pizza oven of the pizza business already has a lien on it, were it to be used as collateral, the next person in line (a subordinate lienholder) is unlikely to recoup from any sale of that collateral. This makes the business look like a risky borrower to the lender, which can result in higher interest rates or complete denial for financing.

Two key abuse impact points raised by the author are the low barrier to recording liens and the low stake repercussions for filing false claims.

- 1) In pure business to business transactions, the federal law, FCRA, does not apply, however if personal assets are used as collateral, FCRA does apply. Unlike consumer credit reporting which has clear and conspicuous rules for accuracy and completeness for data furnishers,<sup>2</sup> the California Commercial Credit Report statute is silent as to any standards for data furnisher, even going so far as to permit credit reporting agencies to protect the identity of the sources of information used in the commercial credit report.<sup>3</sup>
- 2) Under the California Commercial Credit Report statute, no financial recourse is available for proven injuries.

### *Impact of UCC Liens on Credit Reports*

A practical disparity between the California Commercial Credit Report statute and FCRA is the dispute process. Because accuracy and completeness are foundational cornerstones of FCRA, the dispute process requires removal of disputed information if the reporting agency's investigation determines the information to be inaccurate, incomplete or cannot be verified.<sup>4</sup>

California's Commercial Credit Reporting statute is more limiting on the business and permissive for the credit reporting bureau. First, the statute limits the window of time the business may dispute information to 30 days from receiving the report. Second, the statute limits the business to a 50 word summary statement of dispute to explain the inaccuracy. And third, the statute only requires the agency to either delete or include an indication that the business' statement of dispute will be provided upon request. No investigation as to the validity of the information is required. And yet, a commercial credit report is used to determine a business' creditworthiness on the presumption of accuracy.

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<sup>2</sup> Federal Fair Credit Reporting Act (FCRA) 15 U.S. Code Section 1681s-2- Responsibilities of furnishers of information to consumer reporting agencies. And Title 16 Code of Federal Regulations Part 660.3 Reasonable policies and procedures concerning the accuracy and integrity of furnished information.

<sup>3</sup> Civil Code Section 1785.43(a)

<sup>4</sup> 15 U.S. Code Section 1681i(5) Treatment of inaccurate or unverifiable information

It is a well-known statistic that 99.9% of U.S. businesses are small businesses which employ 45.9% of the country's employees.<sup>5</sup> Unsurprisingly, small businesses rarely use private investors or venture capital to fund their work, instead small businesses seek financing. Access to credit is essential for business, but access to credit with terms that are reasonable is the difference between succeeding and failing. Thus, even though commercial credit reports and the information provided on them are used the same way that consumer credit reports are used, the lack of parity in the requirements for trustworthiness and correction makes the consequences of false reporting deeply dire for businesses.

The sovereign citizens movement are anti-government extremists who believe that even though they physically reside in this country, they are separate, or "sovereign" from the United States.<sup>6</sup> 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.<sup>7</sup>

### **According to the Author**

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.

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.

### **Arguments in Support**

None received. Verified 1/22/2026

### **Arguments in Opposition**

None received. Verified 1/22/2026

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<sup>5</sup> U.S. Small Business Administration Office of Advocacy 2025 Small Business Profile: [https://advocacy.sba.gov/wp-content/uploads/2025/06/United\\_States\\_2025-State-Profile.pdf](https://advocacy.sba.gov/wp-content/uploads/2025/06/United_States_2025-State-Profile.pdf)

<sup>6</sup> FBI archives: Domestic Terrorism Sovereign Citizen Movement 4/13/10, [https://archives.fbi.gov/archives/news/stories/2010/april/sovereigncitizens\\_041310/domestic-terrorism-the-sovereign-citizen-movement](https://archives.fbi.gov/archives/news/stories/2010/april/sovereigncitizens_041310/domestic-terrorism-the-sovereign-citizen-movement)

<sup>7</sup> *State Strategies to Subvert Fraudulent Uniform Commercial Code Filings*, National Association of Secretaries of State (Nov. 2025) ), at p 3. <https://www.nass.org/sites/default/files/reports/ucc-fraudulent-filing-report-november25.pdf>.

**FISCAL COMMENTS**

- 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).

**VOTES****ASM BANKING AND FINANCE: 8-0-1**

**YES:** Valencia, Dixon, Fong, Krell, Michelle Rodriguez, Blanca Rubio, Schiavo, Soria

**ABS, ABST OR NV:** Chen

**ASM JUDICIARY: 12-0-0**

**YES:** Kalra, Dixon, Bauer-Kahan, Bryan, Connolly, Harabedian, Macedo, Pacheco, Papan, Johnson, Stefani, Zbur

**ASM APPROPRIATIONS: 15-0-0**

**YES:** Wicks, Hoover, Stefani, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Bauer-Kahan, Pacheco, Pellerin, Solache, Ta, Tangipa

**UPDATED**

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