SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 501 (Papan) - Lawsuits, liens, and other encumbrances

Version: June 1, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: JUD. 12 - 0, PUB. S. 6 - 0
Mandate: Yes
Consultant: Bob Franzoia

Bill Summary: AB 501 would provide that a person who files a lawsuit, lien, or other encumbrance, knowing that it is false, with the intent to harass is liable for a civil penalty not to exceed $15,000. This bill would (1) require the Secretary of State (SOS) to perform additional duties related to debtor notifications and (2) enact a process for removal through an affidavit process for persons who have had a fraudulent claim filed against them.

Fiscal Impact: Costs of up to $3 million in FY 2026-27 and FY 2027-28 and costs of up to $2.4 million annually ongoing for the SOS to comply with updated Uniform Commercial Code (UCC) financing statement notification and dispute requirements.

To notify an estimated 1.2 million debtors annually will generate an estimated 60,000 customer service calls per year, necessitating six positions. The new affidavit dispute process will require one position to process an estimated 1,040 annual submissions while meeting the statutorily mandated UCC two business day processing time. Information technology system modifications to bizfile Online, including automated notification workflows, affidavit intake, and termination statement processing, will require one-time contractor and first year support and three permanent positions. The SOS receives approximately 600,000 financing statements and amendments annually.

Potentially significant costs to the courts to adjudicate new penalties depending on many unknowns, including the numbers of people charged and the factors unique to each case. Potential savings of an unknown amount to the extent increasing penalties for filing fraudulent liens decreases the practice and results in a commensurate reduction in workload. An eight-hour court day costs approximately $10,500 based on the hourly rate of court personnel including at minimum the judge, clerk, bailiff, court reporter, jury administrator, administrative staff, and jury per-diems. While the courts are not funded on a workload basis, an increase in workload could result in delayed court services and would put pressure on the General Fund to fund additional staff and resources. The FY 2026-27 Budget appropriated $70 million General Fund for this purpose (Trial Court Trust Fund, General Fund).

Background: The Uniform Commercial Code (UCC) was intended to provide a comprehensive set of laws governing all commercial transactions across the nation. However, a troubling trend has arisen where fraudulent liens are being filed under its provisions against public officials, employees, judges, candidates for elected office, and elected officials. This process is used to harass and intimidate public officials and can have real financial consequences. This bill seeks to address this issue by increasing penalties for fraudulently filed liens, allowing treble court costs to be awarded, and requiring the SOS to notify a person when a lien has been field against them. The bill also enacts a mechanism for those who have had a fraudulent lien filed against them to request the lien be removed through an affidavit process.

Proposed Law: This bill would do, among other things, the following:

Raise the civil penalty for filing a fraudulent lien from up to $5,000 to up to $15,000.

Make any party deemed to have violated provisions regarding lawsuits, liens or encumbrances liable to the debtor for three times all court fees paid.

Require the SOS to notify a debtor named in a financing statement with 21 days after the financing statement is filed.

Authorize a person identified as a debtor to file an affidavit attesting that the financing statement was not permitted to be filed and would require the SOS to make available a form affidavit for use.

Authorize a party of record to petition the court to enjoin the filing office from filing the termination statement and for the court to determine whether the financing statement is valid and should be reinstated.

Related Legislation: AB 75 (Roth) Chapter 269/2011 authorized the SOS to refuse to perform a service or refuse a filing based on a reasonable belief that the service or filing is being requested for an unlawful, false, or fraudulent purpose, to promote or conduct an illegitimate object or purpose, or is being requested or submitted in bad faith or for the purpose of harassing or defrauding a person or entity,