

Date of Hearing: August 20, 2025

# ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

SB 362 (Grayson) – As Amended July 10, 2025

Policy Committee:	Banking and Finance	Vote:	9 - 0
	Judiciary		12 - 0

Urgency: No      State Mandated Local Program: Yes      Reimbursable: No

## SUMMARY:

This bill prohibits a commercial financing provider from using certain terms in a deceptive manner.

Specifically, this bill:

- 1) Prohibits a provider of commercial financing from using the term “interest” or “rate” in a deceptive manner, including in a way that violates the Unfair Competition Law (UCL).
- 2) Requires a provider, after extending a specific commercial financing offer to a potential recipient, to state the annual percentage rate (APR) of the offer whenever the provider states a charge, pricing metric, or financing amount to the potential recipient.
- 3) Provides that a violation of these provisions is either enforceable under the California Financing Law (CFL) if the violation relates to a commercial financing transaction subject to the CFL, or enforceable under the California Consumer Financial Protection Law (CCFPL) if the violation relates to a commercial financing transaction not subject to the CFL.

## FISCAL EFFECT:

- 1) Absorbable ongoing costs to the Department of Financial Protection and Innovation (DFPI) to answer legal inquiries from commercial financing providers regarding the usage of specified terms and for related enforcement workload (Financial Protection Fund).
- 2) Possible costs to the Department of Justice (DOJ) of an unknown, but likely minor amount, as a violation of the prohibition is an unlawful business practice enforceable by DOJ under the UCL (Unfair Competition Law Fund). DOJ reports no fiscal impact from this bill, indicating DOJ does not anticipate pursuing related enforcement actions, as this bill enhances DFPI’s ability to pursue enforcement.
- 3) Cost pressures (General Fund (GF) or Trial Court Trust Fund) of an unknown, but likely minor amount, to the courts in additional workload by creating a new prohibition enforceable under the UCL. A claim under the UCL may be brought by either a public prosecutor or a person who lost money or property as the result of the unlawful conduct. It is unlikely many actions will be filed statewide, as this bill enhances DFPI’s ability to pursue administrative enforcement outside the court system.

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

California led the way in 2018, setting us on the path to providing more complete and helpful pricing disclosures for commercial financing. These requirements equip small businesses with the information they need to compare financing offers and make a decision that best fits their needs. SB 362 will strengthen our price disclosure law by improving the accountability of financing providers and ensuring that small businesses receive clear disclosures throughout the marketing process.

**2) Background. Commercial Financing Disclosures.** SB 1235 (Glazer), Chapter 1011, Statutes of 2018, required DFPI to establish the following standardized commercial financing disclosures for certain borrowers: (a) the total amount of funds provided, (b) the total dollar cost of the financing, (c) the term or estimated term, method, frequency, and amount of payments, (d) a description of prepayment penalties, and (e) until January 1, 2024, the total cost of financing expressed at an annualized rate. SB 1235 applied to a wide range of financing products, including a closed-end transaction, sales-based financing, asset-based lending, an open-end credit plan, factoring, and lease financing. After a multi-year regulatory process with numerous stakeholder comment periods, the disclosures took effect in December 2022, requiring a lender to provide, until January 1, 2024, an APR to meet the total-cost-of-financing disclosure requirement described above. SB 33 (Glazer), Chapter 376, Statutes of 2023, repealed the sunset date, thus making the APR disclosure permanent.

Despite such transparency measures, providers may still use inconsistent terminology throughout the lending application process, including ambiguous or misleading terms such as “simple interest” or “factor rate.” This bill prohibits a provider from using certain financial terms in a deceptive manner and requires a provider to state the APR of an offer during subsequent pricing communications with a borrower.

**Enforcement Authority.** Because state oversight of the financial industry generally relies on licensing programs built around strict definitions of products or services, new or emerging financial products may not fit into one of DFPI’s many existing programs. For example, the CFL requires licensure of companies offering consumer or commercial loans, but does not generally apply to commercial financing providers offering non-loan products, such as sales-based financing or factoring, many of which are utilized by small businesses unable to obtain traditional loans. AB 1864 (Limon), Chapter 157, Statutes of 2020, established the CCFPL to fill these consumer gaps and empower DFPI to oversee unlicensed providers of consumer financial products or services.

As this bill prohibits a specific form of unlawful, unfair, or fraudulent business acts or misleading advertising, a violation of this bill’s provisions is generally enforceable through the UCL, under which a public prosecutor or certain private plaintiffs may bring a case. This bill empowers DFPI to also take enforcement action against an unlicensed provider by clarifying DFPI may enforce violations under the CFL (for providers licensed under the CFL) or CCFPL (for unlicensed providers).

- 3) **Support and Opposition.** This bill is co-sponsored by the California Association for Micro Enterprise Opportunity, Responsible Business Lending Coalition, and Small Business Majority, which argue this bill “will create a more coherent disclosure framework and result in small businesses receiving better information as they shop around for the best financing offers for their business.” This bill is also supported by consumer groups and economic development organizations.

This bill is opposed by online lending associations, with the Electronic Transactions Association arguing “the disclosures required in this bill could be confusing for both online companies that provide financing to small business and the small business community.”

- 4) **Related Legislation.** SB 825 (Limon) specifies DFPI’s authority under the CCFPL to take enforcement action against certain DFPI licensees engaging in unfair, deceptive, and abusive acts and practices. SB 825 is pending hearing in this committee.
- 5) **Prior Legislation.** SB 1482 (Glazer), of the 2023-24 Legislative Session, would have imposed various duties on commercial financing providers and brokers. SB 1482 was ordered to the Assembly Inactive File.

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