

SENATE THIRD READING

SB 362 (Grayson)

As Amended July 10, 2025

Majority vote

SUMMARY

This bill prohibits a commercial financing provider from using certain terms in a deceptive manner and clarifies the enforcement authority provided to the Department of Financial Protection and Innovation (DFPI) for violations of the requirements.

Major Provisions

- 1) Adds legislative findings describing the specific issue of confusion in commercial financing.
- 2) Prohibits the use of the term "interest" and "rate" in a deceptive way that could reasonably misled a recipient.
- 3) Requires statement of the annual percent rate (APR) anytime a provider states a charge, pricing metric, or financing amount to the potential recipient after a extending a specific offer.
- 4) Clarifies that it is not misleading or deceptive to use the terms "interests" or "rate" if the metric of financing cost is an annual interest rate or annual percentage rate that is either fixed or floating for the period of the financing and that is expressed as a margin over an index rate.
- 5) 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.

COMMENTS

In 2018, SB 1235 (Glazer, Chapter 1011, Statutes of 2018) established a first-in-the-nation disclosure framework that applies to a variety of financing products offered to small business borrowers. Modeled after the disclosures required by the federal Truth in Lending Act, SB 1235 requires financing providers to disclose all interest, fees, and other finance charges associated with loans and other forms of financing extended to small businesses. The law also requires that finance charges be disclosed as an annualized rate with the goal of allowing customers to be able to compare offers with comparable metrics to be able to shop for the best deal.

While generally successful, some remaining hanging threads are being addressed in this bill to achieve the transparency originally sought for small businesses to have more informed market choice, especially as non-traditional lending starts to take up more market share. Some providers still use inconsistent terminology throughout the lending application process, including misleading or deceptive 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.

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).

According to the Author

"Running a small business is hard enough without needing to wade through the dizzying array of credit options that can either lift a business up or weigh it down into failure. I am proud that 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."

Arguments in Support

California Low-Income Consumer Coalition writes:

SB 362 addresses these current gaps in California's small business financing disclosure framework. The bill requires that providers disclose the estimated APR throughout the offering process, whenever details of the financing offer are mentioned. The bill also makes clear DFPI's enforcement authority related to activity by licensed entities. These solutions 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."

Arguments in Opposition

None received.

Verified 8/21/2025.

FISCAL COMMENTS

- 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.

VOTES

SENATE FLOOR: 38-0-2

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

ABS, ABST OR NV: Hurtado, Reyes

ASM BANKING AND FINANCE: 9-0-0

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

ASM JUDICIARY: 12-0-0

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

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Jeff Gonzalez, Solache, Ta, Tangipa

UPDATED

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