# SENATE COMMITTEE ON
# BANKING AND FINANCIAL INSTITUTIONS
**Senator Timothy Grayson, Chair**
**2025 - 2026 Regular**

| | | | |
|---|---|---|---|
| **Bill No:** | SB 972 | **Hearing Date:** | March 18, 2026 |
| **Author:** | Grayson | | |
| **Version:** | February 4, 2026 Introduced | | |
| **Urgency:** | No | **Fiscal:** | Yes |
| **Consultant:** | Michael Burdick | | |

**Subject:** California Financing Law: commercial loans: investment advisers

## SUMMARY

This bill establishes a tailored licensing process under the California Financing Law for entities making large commercial loans through SEC-registered investment advisers.

## EXISTING LAW

1) Requires the licensure and oversight by the Department of Financial Protection and Innovation (DFPI) of businesses that provide commercial loans in the state, pursuant to the California Financing Law (CFL). (Division 9 of the Financial Code, Section 22000 et seq.)

2) Defines "commercial loan" as a loan of a principal amount of $5,000 or more, or any loan under an open-end credit program, the proceeds of which are intended by the borrower for use primarily for other than personal, family, or household purposes. (Financial Code Section 22502)

3) Exempts from the CFL a person who makes no more than one loan in a 12-month period if that loan is a commercial loan. (Financial Code Section 22050.5)

4) Prohibits a person from engaging in the business of a finance lender or broker without obtaining a CFL license. (Financial Code Section 22100)

5) Requires a CFL applicant to submit fingerprints for the purposes of a criminal history record check. (Financial Code Section 22101.5)

6) Requires a CFL applicant to submit financial statements that indicate a minimum net worth of at least $25,000. (Financial Code Section 22104)

7) Upon the filing of a CFL application, requires DFPI to investigate the applicant, its principal officers, directors, managing members, and persons owning or controlling, directly or indirectly, 10 percent or more of the outstanding equity securities or any person responsible for the conduct of the applicant's lending activities. (Financial Code Section 22105)

8) Requires each CFL licensee to pay its pro rata share of all costs and expenses reasonably incurred by DFPI in the administration of the CFL, as specified. (Financial Code Section 22107)

9) Requires a CFL licensee to maintain a surety bond of $25,000, to be used for the recovery of expenses, fines, and fees levied by DFPI, related to noncompliance with the CFL. (Financial Code Section 22112)

10) Requires a CFL licensee to file an annual report by March 15, giving the relevant information that DFPI reasonably requires concerning the business and operations conducted by the licensee. (Financial Code Section 22159)

11) Prohibits a person subject to the CFL from doing any of the following:

    a) Making a materially false or misleading statement or representation to a borrower about the terms or conditions of that borrower's loan, when making or brokering the loan.

    b) Engaging in false, misleading, or deceptive advertising.

    c) Engaging in any act in violation of Section 17200 of the Business and Professions Code (the Unfair Competition Law).

    d) Knowingly misrepresenting, circumventing, or concealing, through subterfuge or device, any material aspect or information regarding a transaction to which the person is a party.

    e) Committing an act that constitutes fraud or dishonest dealings. (Financial Code Section 22161)

**THIS BILL**

1) Authorizes an investment adviser that is registered with the United State Securities and Exchange Commission (SEC) to apply for and obtain a CFL license to act on its own behalf and on behalf of any client account, pursuant to the following specifications:

    a) Defines "client account" as any account, fund, pooled investment vehicle, special purpose vehicle, subsidiary, or similar vehicle or person sponsored, advised, managed, subadvised, or submanaged by the SEC-registered investment adviser or by any affiliated adviser registered investment adviser or any affiliated adviser that may engage in commercial lending activity in California.

    b) Provides that a license covers any affiliate of the SEC-registered investment adviser (RIA) if that affiliate is also an RIA, as specified.

    c) Provides that a license issued to an RIA shall authorize the adviser and its affiliated advisers to engage in commercial lending activity through any of their respective client accounts listed on the appendix at the time of those commercial lending activities, without the need for a separate license for each affiliated adviser client account.

    d) For the purposes of the background investigation and fingerprint requirements required by the CFL, provides that only those individuals, even if not affiliated with the adviser, who both (A) directly control the advisory activities of the RIA or any of its affiliate advisers and (B) hold direct responsibility for making an investment decision to engage in any particular commercial lending transaction shall be required to submit fingerprint images and related information to the Department of Justice, as specified.

e) Limits CFL activities under such a license to the activity of client accounts that are engaged in making commercial loans on a privately originated basis in a minimum aggregate amount exceeding $500,000, and specifically prohibits mortgage loan origination, consumer lending, or making a commercial finance offer in an amount of less than $500,000 per specific offer.

f) Requires an RIA to maintain and file with DFPI an appendix to its license application and renewals, listing each client account engaging in or that may engage in commercial lending activity.

g) Requires the RIA to obtain and maintain a surety bond of $25,000 per client account, as specified.

h) Requires each client account to maintain a minimum net worth of $25,000, as specified.

i) Requires an RIA to provide to DFPI, at the time of application and upon each renewal, a representation for each client account, certifying that each client account maintains the minimum net worth requirement.

j) Provides that each licensee shall file an annual report with DFPI on or before March 15, providing all relevant information that DFPI reasonably requires related to commercial lending activity conducted by the licensee's client accounts. Provides that the licensee may submit, on behalf of their relevant affiliated advisers and client accounts, a single aggregated summary of lending activity, as specified.

k) Authorizes DFPI to adopt rules and regulations as necessary to implement and administer the licensure process described in this bill.

2) Specifies that the class of exempt persons pursuant to the prohibition on usury in the California Constitution includes each person within the meaning of client account.

## COMMENTS

1) *Purpose*

According to the author:

> SB 972 updates the California Financing Law (CFL) to provide a streamlined licensure process for certain large commercial loan transactions. The bill allows a SEC-registered investment adviser (RIA) to obtain a CFL license that authorizes the adviser to make commercial loans of greater than $500,000 directly, through affiliate advisers, or on behalf of client accounts. Through this streamlined process, an RIA can deploy capital on behalf of its clients to finance businesses and projects in California that would otherwise not benefit from such capital. By expanding the pool of investable capital, this bill has the potential to reduce the cost and increase the availability of capital for California business and projects, which can contribute to more jobs and greater economic growth. SB 972 provides a tailored approach to amending the CFL with the goal of avoiding fiscal strains on the CFL program and maintaining oversight authority sufficient to protect the integrity of the nonbank lending market in California.

2) *Background on the California Financing Law (CFL)*

The California Financing Law (CFL) is a licensing framework administered by the Department of Financial Protection and Innovation (DFPI) to supervise and regulate the activities of non-bank lenders, brokers, and PACE program administrators doing business in California. The CFL covers a wide range of loan products, such as a $500 unsecured consumer loan, a $20,000 automobile loan, a $500,000 mortgage loan, a $200,000 loan to a small business, and a multi-million dollar loan to a mid-size or large corporation. While the regulations that apply to each type of loan vary, the persons providing the loans must each undertake a similar process in applying for a CFL license and complying with the administrative aspects of the licensing law.

As codified in statute, the underlying purposes and policies of the CFL include the following: to ensure an adequate supply of credit to borrowers; to simplify, clarify, and modernize the law governing loans made by finance lenders; to protect borrowers against unfair practices by some lenders, having due regard for the interests of legitimate and scrupulous lenders; to permit and encourage the development of fair and economically sound lending practices; and to encourage and foster a sound economic climate (Financial Code Section 22001). Clearly, the Legislature does not intend for the CFL to hinder lending that benefits both the borrower and the lender, while also recognizing that mutually beneficial lending can have positive effects on the broader economy.

Under current law and practice, the CFL inhibits the flow of capital in so-called private debt markets. Further elaboration on private debt markets is covered in the following comment, but suffice it to say that the time it takes to apply for and obtain a CFL license, anywhere from six to eighteen months, can stymie a private debt fund from allocating capital to California borrowers. This bill intends to address this challenge and modernize the CFL in a manner consistent with the underlying purposes and policies of the law.

3) *Private debt markets and the CFL*

Private debt (or "private credit") refers to loans made by non-bank entities, like private debt funds or business development companies (BDCs)[1], primarily to middle-sized corporations with earnings in the $5 million - $100 million range or larger. Private debt is distinct from traditional bank lending or raising capital by issuing bonds in the public markets. Just as private equity serves an important role in capital provision where public markets are not a good fit, private debt markets meet a significant demand for credit, especially for middle-market firms.

Private debt funds and BDCs typically engage in direct lending where one borrower and a single lender (or small group of lenders) bilaterally negotiate the terms of the loan. The lender anticipates holding the loan to maturity, rather than originating the loan with the intent to sell or assign portions to other investors in the secondary market. Generally, providers of private debt can offer more flexible terms to borrowers and are able to take more risk than

[1] BDCs are a particular type of closed-end investment fund under the federal Investment Company Act. BDCs invest in debt and equity of small and medium-sized private, or some small public, companies. The companies BDCs invest in are typically in their early stages of development or are distressed companies that may not be able to obtain bank loans or raise money from other investors. Sometimes BDCs may help manage the companies they invest in. See more at: https://www.investor.gov/introduction-investing/investing-basics/investment-products/closed-end-funds/publicly-traded-business-development-companies-bdcs, accessed on March 15, 2026.

commercial banks and can provide capital to firms that may not be large enough to issue debt in public markets at attractive pricing.

Private debt funds and BDCs fund loans with equity capital raised from investors, as well as debt financing from issuing public bonds, bank credit, and other sources. Capital raised by these entities is managed by an investment adviser, who is typically registered with the federal Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940. The registered investment adviser (RIA) is the entity that directs the lending decisions for the fund. It is common for an RIA to advise more than one fund in making direct loans in the private debt markets.

Given that private debt funds and BDCs are not depository institutions that are exempt from the CFL, these entities must obtain a CFL license before engaging in the business of commercial lending in California. While the ability to ultimately obtain a license is not in question, the time it takes to obtain a license can serve as a practical impediment for some funds. Once an RIA achieves the desired capital commitments to close a funding round, investors expect the RIA to quickly deploy capital by making loans. Waiting for six to eighteen months to obtain a CFL license before making a loan in California may not be a realistic option.

The CFL provides a particular exemption that can help ease the burden of licensure, but it is far from an ideal alternative. The CFL provides an exemption for an entity that makes only one commercial loan in any 12-month period. While a one-loan-per-year exemption may satisfy some private debt funds, it is limiting for others and impedes efficient capital allocation. An RIA may pass on one or more "good" deals in California, reserving its one loan exception for an opportunity later in the year that may be better for the RIA. Certainly, a better alternative can be crafted that allows borrowers and lenders to enter into mutually beneficial transactions.

4) *How this bill modernizes the CFL*

This bill establishes an alternative licensure approach under the CFL that allows an SEC-registered investment adviser (RIA) to obtain an umbrella license that covers the commercial lending activity of the RIA, any affiliated advisers, and the investment funds that the advisers advise. This approach would allow the RIA that holds a CFL license to raise new funds, acquire existing funds, and enter into new advisory relationships – all while facilitating commercial lending activity through those funds without applying for a new CFL license in each instance.

The intent of this bill is to alleviate the frictions caused by the CFL licensure process, not to facilitate evasion of the requirements of the law. The RIA that holds the CFL license remains subject to the provisions of the CFL that pertain to commercial lending, and the bill provides that the licensee is responsible for the compliance of any affiliates or funds under the umbrella license. DFPI retains authority to examine the licensee for compliance with the law and take enforcement action when appropriate. Additionally, the licensee is responsible for paying its pro rata share of the CFL program costs, just like any other licensee, based on the commercial lending activity conducted under the license.

In addition to streamlining the CFL process, this bill makes clear that loans made under this process are treated similarly to other loans made by CFL finance lenders under state usury law. The state constitution provides a usury cap of the greater of 10% or the federal discount

rate plus 5% for commercial loans; however, this cap only applies to unregulated lenders. CFL finance lenders, as well as banks, credit unions, and other regulated financial institutions, are exempt from the cap. By providing a clear and less inhibitive path to CFL licensure, this bill will make clear that loans made through an RIA that holds a CFL license are not subject to the prohibitive usury limit in the constitution.

5) *Arguments in Support*

LSTA, as sponsor, writes in support:

> LSTA is a not-for-profit trade association that has been the leading advocate for the U.S. corporate lending market since 1995. LSTA's mission is to promote a fair, orderly, efficient and growing corporate loan market while advancing and balancing the interests of all market participants. Our 600+ member institutions include commercial banks (ranging in size from GSIBs to community banks), investment banks, broker-dealers, asset managers, and institutional lenders, as well as law firms and market service providers. LSTA undertakes a wide variety of activities in pursuit of its mission, including advocacy, thought leadership, data analytics, education, and standardization of documents and practices.
>
> SB 972 will open new avenues for capital formation in California by enabling investment advisers to deploy private capital for commercial loans under a transparent, state-regulated framework. By creating a robust and more efficient licensing procedure through the Department of Financial Protection and Innovation (DFPI), SB 972 provides the certainty needed for institutional and managed funds to participate more actively in California's commercial lending markets.
>
> Expanding responsible commercial lending capacity is good for California. Increased access to capital supports mid-sized and large businesses in California, fuels job creation, and strengthens regional economic growth. Diversified sources of regulated private capital, in addition to traditional bank lending, are essential to maintaining economic momentum across the state.

6) *Double Referral*

This bill is double referred to the Committee on Judiciary.

7) *Considerations for author and DFPI*

This bill is mostly clear in the method by which it creates a parallel license application process under the CFL, but there may be opportunities to improve the drafting and further clarify the interaction with existing law. As the sole administrator of the CFL, DFPI may contribute helpful technical assistance to the author to ensure the intent of the bill is carried out and to add sufficient detail in statute to reduce the rulemaking burden of the department. Committee staff identifies the following issues for additional conversation with DFPI and supporters where the author can seek additional clarification:

- Would the bill benefit from defining a new term, such as "RIA finance lender," that can be used throughout the bill to identify a licensee that obtains a CFL license through the proposed streamlined process?

- Is the bill sufficiently clear in how provisions of this bill related to certain sections of existing law, particularly Financial Code Sections 22100, 22105, and 22159?

- A CFL license for commercial lending is not subject to "renewal" as implied by the bill. What is the best procedure for updating DFPI with the information related to client accounts required by this bill?

- Does the sponsor of the bill expect the licensed RIA to be responsible for all compliance obligations under the CFL that could pertain to the affiliated advisers or their respective client accounts? If so, the use of the word "section" in subdivision (g) of Section 22100.3 in the bill should be changed to "division."

- Should the bill include a delayed operative date to allow DFPI the time to conduct rulemaking and other administrative requirements to implement the law?

8) *Prior and Related Legislation*

AB 2981 (Chen) of 2024 would have specified that a commercial finance lender that does not make or broker residential mortgage loans or consumer loans shall be deemed a licensee under the California Financing Law if that finance lender makes five or fewer commercial loans annually and the principal amount of each loan exceeds $350,000. The bill was held in the Assembly Appropriations Committee.

**LIST OF REGISTERED SUPPORT/OPPOSITION**

Support

LSTA (sponsor)
AGL Credit Management LP
Ares Management LLC
Canyon Partners, LLC
Churchill Asset Management LLC
Congressman Brad Sherman
Crescent Capital Group LP
Elevate California
Oaktree Capital Management, L.P. and its Affiliate OCM Investments, LLC
PGIM

Opposition

None received

**-- END --**