

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 972 (Grayson)
Version: February 4, 2026
Hearing Date: April 7, 2026
Fiscal: Yes
Urgency: No
AM

SUBJECT

California Financing Law: commercial loans: investment advisers

DIGEST

This bill establishes an alternative licensure process under the Consumer Financing Law (CFL) for an investment adviser that is registered with the U. S. Securities and Exchange Commission (SEC). The bill would allow certain financial information contained in an annual report to be exempt from public disclosure.

EXECUTIVE SUMMARY

The intent of this bill is to ensure that SEC-registered investment advisors (RIAs) remain licensed and regulated under the CFL, but also are able to quickly deploy capital to businesses in California. The provisions of the bill in this Committee's jurisdiction pertain to limiting access to public records, and as such, this analysis will focus on that provision. The bill is sponsored by LSTA and supported by various investment advisors and Congressman Brad Sherman. There is no known opposition. The bill passed the Senate Committee on Banking and Financial Institutions on a vote of 6 to 0.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Requires the licensure and oversight of businesses that provide commercial loans in the state by the Department of Financial Protection and Innovation (DFPI), pursuant to the California Financing Law (CFL). (Fin. Code §§ 22000 et seq.)
 - a) 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. (Fin. Code § 22050.5.)
 - b) 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. (Fin. Code § 22502.)
- 2) Prohibits a person from engaging in the business of a finance lender or broker without obtaining a license under the CFL. (Fin. Code § 22100.)
 - 3) Requires an applicant for licensure under the CFL to, among other things:
 - a) submit fingerprints for the purposes of a criminal history record check; and (Fin. Code § 22101.5.)
 - b) submit financial statements that indicate a minimum net worth of at least \$25,000. (Fin. Code § 22104.)
 - 4) Requires a licensee to maintain a surety bond of \$25,000, to be used for the recovery of expenses, fines, and fees levied by DFPI for noncompliance with the CFL. (Fin. Code § 22112.)
 - 5) 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 (known as 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; or
 - e) committing an act that constitutes fraud or dishonest dealings. (Fin. Code § 22161.)
 - 6) Requires certain licensees to file an annual report with the Commissioner of Financial Protection and Innovation (Commissioner) providing the relevant information that the Commissioner reasonably requires concerning the business and operations conducted by the licensee within the state during the preceding calendar year for each licensed place of business. (Fin. Code § 22159 & 23026.)
 - a) Requires the annual reports to be made available to the public for inspection, except upon request in the annual report to the Commissioner, the balance sheet of a sole proprietor or any other nonpublicly traded person.
 - b) "Nonpublicly traded person" is defined as persons with securities owned by 35 or fewer individuals. (*Ibid.*)
 - 7) Provides, pursuant to the California Constitution, that the people have the right of access to information concerning the conduct of the people's business, and, therefore, the meetings of public bodies and the writings of public officials and agencies are required to be open to public scrutiny. (Cal. const. art. I, § 3(b)(1).)

- a) Requires a statute to be broadly construed if it furthers the people's right of access, and narrowly construed if it limits the right of access. (Cal. const. art. I, § 3(b)(1).)
 - b) Requires a statute that limits the public's right of access to be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest. (Cal. const. art. I, § 3(b)(1).)
- 8) Governs the disclosure of information collected and maintained by public agencies pursuant to the CPRA. (Gov. Code §§ 7920.000 et seq.)
 - a) States that the Legislature, mindful of the individual right to privacy, finds and declares that access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in this state. (Gov. Code § 7921.000.)
 - b) Defines "public records" as any writing containing information relating to the conduct of the public's business prepared, owned, used, or retained by any state or local agency regardless of physical form or characteristics. (Gov. Code § 7920.530.)
- 9) Provides that all public records are accessible to the public upon request, unless the record requested is exempt from public disclosure. (Gov. Code § 7922.530.)

This bill:

- 1) Authorizes an RIA 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.
 - a) Provides that a license covers any affiliate of the RIA if that affiliate is also an RIA, as specified.
 - b) 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.
- 2) Provides that, for the purposes of the background investigation and fingerprint requirements under the CFL, 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, are required to submit fingerprint images and related information to the Department of Justice, as specified.

- 3) Limits 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.
- 4) Requires an RIA to maintain and file with DFPI an appendix to its license application and renewals that lists each client account engaging in, or that may engage in, commercial lending activity.
- 5) Requires the RIA to obtain and maintain a surety bond of \$25,000 per client account, as specified.
- 6) Requires each client account to maintain a minimum net worth of \$25,000, as specified.
 - a) 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.
- 7) Requires each licensee to file an annual report with DFPI providing all relevant information that DFPI reasonably requires related to commercial lending activity conducted by the licensee's client accounts.
 - a) 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.
 - b) Requires the annual report to be available for public inspection, except that, upon request in the annual report, the balance sheet of a sole proprietor or any other nonpublicly traded person may be withheld from public inspection.
 - c) "Nonpublicly traded person" is defined as a person with securities owned by 35 or fewer individuals.
- 8) States that the "act balances the right of the public to access public records while also preserving the confidentiality of certain financial information."

COMMENTS

1. Stated need for the bill

The author writes:

SB 972 updates the California Financing Law (CFL) to provide a streamlined licensure process for certain large commercial loan transactions. The bill allows an 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. This bill establishes an alternative licensure process under the CFL for SEC-registered investment advisers

According to the Senate Committee on Banking and Finance, obtaining a license under the CFL can take anywhere from six to eighteen months.¹ This bill seeks to establish an alternative licensure process 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 RIAs advise. The Senate Committee on Banking and Finance notes that 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.”²

3. Limiting access to personal identifying information collected by state and local agencies appears consistent with the state’s right to privacy

Access to information concerning the conduct of the people’s business is a fundamental and necessary right of every person in this state. (Gov. Code § 7921.000.) In 2004, the right of public access was enshrined in the California Constitution with the passage of Proposition 59 (Nov. 3, 2004, statewide general election),³ which amended the California Constitution to specifically protect the right of the public to access and obtain government records: “The people have the right of access to information concerning the conduct of the people’s business, and therefore . . . the writings of public officials and agencies shall be open to public scrutiny.” (Cal. Const., art. I, sec. 3 (b)(1).) In 2014, voters approved Proposition 42 (Jun. 3, 2014, statewide direct primary election)⁴ to

¹ Sen. Comm. on Banking and Fin. Analysis of SB 972 (2025-26 reg. sess.) introduced Feb. 4, 2026, at p. 4.

² *Id.* at p. 5.

³ Prop. 59 was placed on the ballot by a unanimous vote of both houses of the Legislature. (SCA 1 (Burton, Ch. 1, Stats. 2004).)

⁴ Prop. 42 was placed on the ballot by a unanimous vote of both houses of the Legislature. (SCA 3 (Leno, Ch. 123, Stats. 2013).)

further increase public access to government records by requiring local agencies to comply with the CPRA and the Ralph M. Brown Act⁵, and with any subsequent statutory enactment amending either act, as provided. (Cal. Const., art. I, sec. 3 (b)(7).)

Under the CPRA, public records are open to inspection by the public at all times during the office hours of the agency, unless they are exempt from disclosure. (Gov. Code § 7922.525.) A public record is defined as any writing containing information relating to the conduct of the public's business that is prepared, owned, used, or retained by any public agency regardless of physical form or characteristics. (Gov. Code § 7920.530.) There are several general categories of documents or information that are permissively exempt from disclosure under the CPRA essentially due to the character of the information. The exempt information can be withheld by the public agency with custody of the information, but it also may be disclosed if it is shown that the public's interest in disclosure outweighs the public's interest in non-disclosure of the information. (*CBS, Inc. v. Block* (1986) 42 Cal.3d 646, at 652.). Additionally, some records are prohibited from disclosure or are specifically stated to not be public records. (see Gov. Code § 7924.110(a).)

California generally recognizes that public access to information concerning the conduct of the people's business is a fundamental and necessary right.⁶ At the same time, the state recognizes that this right must be balanced against the right to privacy.⁷ The general right of access to public records may, therefore, be limited when records include personal or sensitive information.

Under the bill, certain information contained in the annual report provided to DFPI by an RIA can be withheld from public disclosure upon request of the RIA. This information is the balance sheet of a sole proprietor or any other nonpublicly traded person, which is defined as a person with securities owned by 35 or fewer individuals. The bill states that this limitation "balances the right of the public to access public records while also preserving the confidentiality of certain financial information." This limitation is consistent with existing law, which allows this same information to be withheld from public disclosure for other licensees under the CFL.⁸ In light of this, the finding in the bill regarding the need for limiting access to public records seems warranted.

4. Statements in support

LSTA, a not-for-profit trade association that advocates for the U.S. corporate lending market, is the sponsor of the bill. LSTA writes in support stating:

⁵ The Ralph M. Brown Act is the open meetings laws that applies to local agencies. (Gov. Code §§ 59450 et. seq.)

⁶ Cal. Const., art. I, § 3; Gov. Code, § 7921.000.

⁷ Cal. Const., art. I, § 1.

⁸ See Fin. Code §§ 22159 & 23026.

[...] 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. [...]

SUPPORT

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

OPPOSITION

None received

RELATED LEGISLATION

Pending Legislation: None known.

Prior Legislation:

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

PRIOR VOTES

Senate Committee on Banking and Financial Institutions (6 Ayes, 0 Noes)
