
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 972 (Grayson) - California Financing Law: commercial loans: investment advisers

Version: February 4, 2026

Urgency: No

Hearing Date: April 20, 2026

Policy Vote: B. & F.I. 6 - 0, JUD. 12 - 0

Mandate: Yes

Consultant: Janelle Miyashiro

Bill Summary: SB 972 establishes an alternative licensure process under the California Financing Law (CFL) for entities making large commercial loans through U.S. Securities and Exchange Commission (SEC)-registered investment advisers (RIA).

Fiscal Impact: Unknown, potentially significant fiscal impact to the Department of Financial Protection and Innovation (DFPI) (Financial Protection Fund or General Fund). One-time costs may include workload associated with promulgating regulations. While the total operating costs for the department to administer the program will depend on the number of new licensees, license fees may offset these costs to some extent.

Background: The CFL is a licensing framework administered by the DFPI to regulate the activities of non-bank lenders, brokers, and Property Assessed Clean Energy (PACE) program administrators doing business in California. The law is designed to ensure an adequate supply of credit, foster competition among lenders, and protect borrowers from unfair or deceptive practices. 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.

Proposed Law:

- Authorizes an SEC-RIA to apply for and obtain a CFL license to act on its own behalf and on behalf of any client account. Provides that an "SEC-registered investment adviser" include a "relying adviser," "affiliate," or "affiliated adviser," as the context requires.
- Defines "client account" to mean any account, fund, pooled investment vehicle, special purpose vehicle, subsidiary, or similar vehicle or person sponsored, advised, managed, subadvised, or submanaged by the RIA or by any affiliated RIA or any affiliated adviser that may engage in commercial lending activity in this state.
- Requires an RIA to maintain and file with the Commissioner of DFPI an appendix to its license application and renewals, listing each client account. Requires the appendix to include, for each affiliated adviser and each client account, the legal name and the jurisdiction of formation. Requires an RIA to update the appendix as necessary.

- 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.
- 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.
- 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.
- 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.
- Requires the RIA to obtain and maintain a surety bond of \$25,000 per client account, as specified.
- Requires each client account to maintain a minimum net worth of \$25,000, as specified.
 - 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.
- 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.
 - 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.
 - 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.
 - "Nonpublicly traded person" is defined as a person with securities owned by 35 or fewer individuals.
- Authorizes DFPI to adopt rules and regulations necessary to implement and administer the licensure process established by this bill.