

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

AB 2116 (Schiavo)
Version: June 22, 2026
Hearing Date: June 30, 2026
Fiscal: Yes
Urgency: No
AWM

SUBJECT

Commercial financing

DIGEST

This bill expands the scope of the California Financing Law (CFL) to cover specified commercial financing transactions offered to small businesses and establishes requirements and prohibitions on commercial financing providers and brokers engaged in such transactions; the bill's provisions will take effect on January 1, 2028.

EXECUTIVE SUMMARY

The CFL regulates commercial and consumer loans in California. Its primary goals are to ensure an adequate supply of lending to borrowers in California, while protecting borrowers against unfair business practices. Currently, however, the CFL does not apply to non-loan financing products, which may include asset-based lending, accounts receivable purchase transactions, and open-ended credit plans. These forms of financing are often offered to businesses, particularly small businesses, which may not qualify for a traditional loan and which may be less financially sophisticated than larger businesses.

This bill takes the significant step of expanding the CFL to regulate providers and brokers who engage in all types commercial financing transactions with small businesses – not just loans – provided that the financing transaction is for \$500,000 or less and meets other specified criteria. The bill also codifies existing regulations prohibiting certain types of predatory business practices in connection with a small business financing transaction. The author has agreed to amendments to address certain of the remaining opposition's concerns.

This bill is sponsored by the CAMEO Network, the California Low-Income Consumer Coalition, the Responsible Business Lending Coalition, and Small Business Majority and is supported by numerous organizations, including consumer protection groups,

finance companies, and business organizations. This bill is opposed by the Innovative Lending Platform Association and the Revenue Based Finance Coalition. The Senate Banking and Financial Institutions Committee passed this bill with a vote of 6-0.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes the CFL, which regulates consumer and commercial loans with the goals of ensuring an adequate supply of credit to borrowers in the state and protecting borrowers against unfair lending practices. (Fin. Code, div. 9, §§ 22000 et seq.)
- 2) Requires, under the CFL, the licensure of entities that provide certain consumer or commercial loans in the state, as administered and overseen by the Department of Financial Protection and Innovation (DFPI). (Fin. Code, div. 9, ch. 1, art. 3, §§ 22100 et seq.)
 - a) A “consumer loan” is a loan, whether secured by real or personal property, or both, or unsecured, the proceeds of which are intended by the borrower for use primarily for personal, family, or household purposes. (Fin. Code, § 22203.)
 - b) A “commercial loan” is a loan of a principal amount of \$5,000 or more, or any loan under an open-end credit program, whether secured by real or personal property, or both, or unsecured, the proceeds of which are intended by the borrower for use primarily for other than personal, family, or household purposes. (Fin. Code, § 22502.)
- 3) Establishes, in Division 9.5 of the Financial Code (Division 9.5), disclosure requirements related to commercial financing. (Fin. Code, div. 9.5, §§ 22800 et seq.)
- 4) Exempts the following entities from the requirements in 3):
 - a) A provider that is a depository institution.
 - b) A provider that is a lender regulated under the federal Farm Credit Act.
 - c) A commercial financing transaction secured by real property.
 - d) A commercial financing transaction in which the recipient is a dealer, as defined, or a vehicle rental company, and other specified requirements are met.
 - e) Any person who makes no more than one commercial financing transaction in California in a 12-month period or any person who makes 5 or fewer commercial financing transactions in a 12-month period that are incidental to the business of the person relying on the exemption. (Fin. Code, § 22801.)
- 5) Defines the following relevant terms within Division 9.5:
 - a) “Commercial financing” means an accounts receivable purchase transaction, including factoring, asset-based lending transaction, commercial loan,

- commercial open-end credit plan, or lease financing intended by the recipient for use primarily for other than personal, family, or household purposes; for purposes of determining whether financing is covered by 2), the provider may rely on any written statement of intended purposes signed by the recipient, as specified.
- b) "Person" means an individual, a corporation, a partnership, a limited liability company, a joint venture, an association, a joint stock company, a trust, or an unincorporated organization.
 - c) "Provider" means a person who extends a specific offer of commercial financing to a recipient, and includes a nondepository institution which enters into a written agreement with a depository to arrange for the extension of commercial financing by the depository institution to a recipient via an online lending platform administered by the nondepository institution.
 - d) "Recipient" means a person who is presented a specific commercial financing offer by a provider that is equal to or less than \$500,000. (Fin. Code, § 22800.)
- 6) Establishes the California Consumer Financial Protection Law (CCFPL), which gives the DFPI oversight over entities engaged in the business of offering or providing consumer financial products or services. (Fin. Code, div. 24, §§ 90000 et seq.)
 - 7) Exempts from the CCFPL a variety of entities, including entities licensed under other specified state laws, such as a finance lender or broker licensed under the CFL. (Fin. Code, § 90002.)
 - 8) Authorizes the DFPI to promulgate regulations that define unfair, deceptive, and abusive acts and practices in connection with the offering or provision of commercial financing to small business recipients, nonprofits, and family farms. (Fin. Code, § 90009(e).)
 - 9) Authorizes the DFPI to conduct examinations on a periodic basis of a registrant for the purposes of assessing compliance with consumer financial laws, obtaining information about the activities and compliance systems or procedures of the registrant, and detecting and assessing risks to consumers, small businesses, and to markets for consumer financial products and services. (Fin. Code, § 90010.)
 - 10) Authorizes the DFPI to investigate suspected, and to take action against, violators of the CCFPL, including through administrative penalties and a civil action in the name of the People of the State of California brought in the superior court. (Fin. Code, § 90013.)

Existing regulations adopted by the DFPI:

- 1) Define "covered entity" to mean a small business, nonprofit, or family farm whose activities are principally directed or managed from California. (Cal. Code Regs., tit. 10, § 1060(d).)

- 2) Define “covered provider” to mean any person engaged in the business of offering or providing commercial financing or another financial product or service to a covered entity, unless that person is exempt from the CCFPL pursuant to Financial Code Section 90002. (Cal. Code Regs., tit. 10, § 1060(e).)
- 3) Define “small business” to mean a business entity organized for profit with annual gross receipts of no more than \$16,000,000 or the annual gross receipt level as biennially adjusted by the Department of General Services in accordance with Government Code section 14837, subdivision (d)(3), whichever is greater. (Cal. Code Regs., tit. 10, § 1060 (i).)
- 4) Provide that it is unlawful for a covered provider to engage, or have engaged, in any unfair, deceptive, or abusive act or practice in connection with the offering or provision of commercial financing or another financial product or service to a covered entity. (Cal. Code Regs., tit. 10, § 1061(a).)

This bill:

- 1) Extends the CFL to commercial financing transactions, beginning January 1, 2028, as set forth below.
- 2) Prohibits a person from engaging in the business of a commercial financing provider or commercial financing broker without obtaining a license from the DFPI under the existing terms, and subject to the existing restrictions, for licensure under the CFL; a person may continue to engage in these businesses if the person submits a complete application for a license on or before January 1, 2028, and is awaiting approval or denial of the application.
- 3) Subjects commercial financing providers and commercial financing brokers to the administrative and enforcement authorities provided by the CFL to the DFPI, with exceptions for specified provisions relating to businesses in more than one place of business or at more than one location.
- 4) Defines the following relevant terms:
 - a) “Commercial financing” means an accounts receivable purchase transaction, including factoring, asset-based lending transaction, commercial loan, commercial open-end credit plan, or lease financing, intended by the recipient for use primarily for a purpose other than a personal, family, or household purpose; for purposes of determining the primary purpose of the financing, the provider may rely on any written statement of intended purposes signed by the recipient, as specified.
 - b) “Commercial financing broker” means a person who is engaged in the business of performing any of the following acts in connection with

- commercial financing made by a commercial financing provider, subject to specified exclusions:
- i. Transmitting sensitive data about a prospective recipient to a commercial financing provider with the expectation of compensation in connection with making a referral.
 - ii. Making a referral to a commercial financing provider under an agreement with the commercial financing provider that a prospective recipient referred by the person to the commercial financing provider meets certain criteria involving sensitive data.
 - iii. Participating in a commercial financing negotiation between a commercial financing provider and prospective recipient.
 - iv. Counseling, advising, or making recommendations to a prospective recipient about a commercial financing transaction based on the prospective recipient's sensitive data.
 - v. Participating in the preparation of commercial financing documents, including, but not limited to, commercial financing applications, other than providing a prospective recipient blank copies of commercial financing documents; however, transmitting information that is not sensitive data to a commercial financing provider at the request of a prospective recipient shall not, by itself, constitute participation in the preparation of commercial financing documents.
 - vi. Communicating to a prospective recipient a commercial financing provider's commercial financing approval decisions.
 - vii. Charging a fee to a prospective recipient for services related to a prospective recipient's application for a commercial financing transaction from a commercial financing provider.
- c) "Commercial financing provider" means a person who extends a specific offer of commercial financing to a recipient, including, but not limited to, a nondepository institution that enters into a written agreement with a depository institution to arrange for the extension of commercial financing by the depository institution to a recipient via an online lending platform administered by the nondepository institution; the fact that a commercial financing provider extended a specific offer of commercial financing on behalf of a depository institution shall not be construed to mean that the commercial financing provider engaged in, or originated, that finding.
- d) "Recipient" means a small business or small business owner who is presented a specific commercial financing offer by a commercial financing provider that is equal to or less than \$500,000.
- e) "Referral" means the introduction of a prospective recipient to a commercial financing provider, or the delivery of a prospective recipient's contact information to a commercial financing provider, for the purposes of making an introduction.
- f) "Sensitive data" means any of the following:
- i. A bank account number.

- ii. A bank statement.
 - iii. A credit or debit card account number.
 - iv. A credit score.
 - v. All of, or a portion of, a social security number.
 - vi. Personal or business income, including information self-reported by the person.
 - vii. A taxpayer or employer identification number.
 - g) "Small business" means a business entity organized for profit with annual gross receipts of no more than \$16 million, or the annual gross receipt level as biennially adjusted by the Department of General Services, whichever is greater; a licensee may rely on any relevant written representation by the business entity for purposes of determining the entity's annual gross receipts.
- 5) Exempts, from 1), certain commercial financing providers and transactions, including providers regulated under other laws, certain secured transactions, and certain vehicle transactions.
- 6) Provides that a commercial financing agreement is not enforceable unless one of the following applies:
- a) The person providing the commercial financing transaction is a licensed commercial financing provider.
 - b) The person providing the commercial financing transaction has submitted a complete application on or before January 1, 2026, and is awaiting approval.
 - c) The commercial financing transaction was entered into prior to January 1, 2028.
- 7) Prohibits a commercial financing provider or a commercial financing broker from doing any of the following:
- a) Take a confession of judgment or any power of attorney at any time before a default by a recipient under the terms of a commercial financing transaction agreement or contract.
 - b) Include a provision in a commercial financing transaction agreement or contract that authorizes a commercial financing provider or a commercial financing broker to attach or garnish any of a recipient's money held in an account in a depository institution.
 - c) Include a provision in a contract or agreement with the recipient that limits or restricts the recipient from disclosing information that the recipient gains from the recipient's business activities with the commercial financing provider, including, but not limited to, terms and conditions of a product or service offered by the commercial financing provider.
- 8) Provides that a commercial financing transaction found to be unconscionable under the Civil Code shall be deemed to be a violation of, and subject to the remedies specified in, the CFL.

- 9) Requires a commercial financing broker to clearly and conspicuously display on their website the average and maximum annual percentage rates (APRs) for the commercial financing transactions facilitated by them in the most recent calendar year.
- 10) Requires a commercial financing provider to file annually a report with the DFPI with information related to the type, size, and price of commercial financing transactions provided to recipients in the preceding calendar year.
- 11) Codifies into the CFL the DFPI's existing regulation related to unfair, deceptive, and abusive acts and practices committed by a licensee in connection with a commercial financing transaction.
- 12) Makes conforming changes to various general administrative and enforcement provisions within the CFL to reflect the addition of commercial financing transactions to the scope of the licensing law.

COMMENTS

1. Author's comment

According to the author:

Small businesses are the backbone of our economy, and they deserve a fair and transparent marketplace when seeking capital. Right now, traditional lenders operate under clear rules, but certain high-cost non-loan products – like merchant cash advances – function outside that framework. AB 2116 simply ensures consistent oversight so that all financing providers play by the same rules. This bill doesn't limit access to capital, rather it promotes transparency, strengthens accountability, and protects hardworking entrepreneurs from deceptive practices, helping our small businesses continue to grow and thrive.

2. Background on California's commercial financing laws and regulations

Consumer protection in the banking and finance sector is a priority for this state. The CFL sets forth a comprehensive regulatory framework for consumer and commercial loans issued by specified financial institutions.¹ The CFL's goals include permitting and encouraging the development of economically sound lending practices and protecting borrowers against unfair practices by some lenders, and its provisions should be liberally construed to promote its purposes and policies.²

¹ Fin. Code, div. 9, §§ 22000 et seq.

² *Id.*, § 22001.

With the advent of different types of commercial financing, however, not all commercial financing entities are covered by the CFL. These alternative financing products include sales-based financing, like merchant advances, lease financing, and factoring – all of which are structured in ways that do not make them “loans” from a legal perspective, though each product serves the same basic function of providing a small business with funds that are paid back over time to the financing provider.

Some commercial financing providers offering non-loan products are otherwise subject to regulatory regimes; for example, federal law regulates depository institutions (banks and savings associations), and credit unions are regulated under federal or state law. Many “financial technology,” or “fintech” firms, however, do not cleanly fall within existing regulations for financial institutions,³ and their financing products, when offered to businesses, do not fall within existing regulatory regimes specific to consumer financing.⁴

The sponsors of this bill argue that these regulatory regimes leave a gap in coverage for non-loan financial products offered to small businesses. They assert that many small business owners have a similar level of financial literacy, legal knowledge, and bargaining power as typical consumers, warranting additional protections for small businesses seeking financing.

3. This bill extends the CFL to cover small business financing

To provide additional protections for small businesses seeking financing, this bill extends state oversight of commercial financing activities under the CFL to include certain small business financing transactions. Specifically, this bill expands the CFL to cover commercial financing transactions that meet all of the following criteria:

- Amount of financing: \$500,000 or less.
- Borrower characteristics: must be a small business located in California with less than \$19 million of annual revenue.⁵
- Non-exempt provider: certain entities and transactions are exempted by the bill, mostly in line with exemptions provided by the CFL for commercial loan transactions.

Given the relatively low financing and income caps, the new regulations proposed by this bill should affect few transactions between relatively sophisticated parties. The

³ “As Riley Quinn says, ‘when you hear “fintech,” think: “unlicensed bank.” ’ ” (Doctorow, *When you hear “fintech,” think “unlicensed bank”* (May 1, 2023) Medium, <https://doctorow.medium.com/when-you-hear-fintech-think-unlicensed-bank-de5c47016f58>. All links in this analysis are link current as of June 17, 2026.

⁴ See Fin. Code, div. 24, §§ 90000 et seq.

⁵ The bill establishes a cap of either \$16 million or the small business limit as established by DGS, whichever is greater; DGS’s current cap is \$19 million. (See Department of General Services, Procurement Division, Apply for Re-Apply for Certification as a Small Business and/or Disabled Veteran Business Enterprise, <https://www.dgs.ca.gov/PD/Services/Page-Content/Procurement-Division-Services-List-Folder/Apply-for-or-Re-apply-as-Small-Business-Disabled-Veteran-Business-Enterprise>

maximum transaction amount of \$500,000 also recognizes that, even if a borrower is considered a small business, they are more likely to retain counsel or otherwise obtain professional help for larger loan amounts, reducing the need for regulatory oversight. Additionally, the requirement that a borrower must be considered a “small business” in order for the regulations to apply means that small transactions between financing providers and larger business borrowers will not be subject to the new regulations. These proposed amounts appear reasonably tailored to protect small business borrowers without adding unnecessary burdens to transactions between relatively sophisticated parties.

As defined by this bill, a commercial financing transaction involving a small business includes both loan and non-loan credit products. Providers and brokers of commercial loans are already required to be licensed under the CFL based on existing law, so this bill introduces several new obligations and prohibitions that apply to commercial loans of \$500,000 or less that are offered to small businesses. These new regulations appear reasonably tailored to protect small businesses from predatory practices, such as when a financing provider takes a confession of judgment from a business before a default, or contract clauses that permit the finance provider to garnish the small business’s bank accounts absent an entry of judgment in a court case. Additionally, the proposed disclosure and reporting requirements make these financing markets more transparent, which has benefits for borrowers, fair competition, and focused supervision by the DFPI.

4. Prior legislative attempts to regulate non-loan commercial financing transactions

This bill is the fourth attempt in three years to extend state oversight into the non-loan commercial financing markets that serve small businesses in California. Although the authors have changed, most of this bill’s sponsors were also sponsors of the prior measures.⁶ These prior measures are, in reverse chronological order:

- SB 728 (Padilla, 2025) would have expanded the CCFPL, which governs all consumer financing transactions, to include financing offered to small businesses, defined as businesses with annual gross receipts of up to \$16 million.
- SB 1482 (Glazer, 2024), as passed by this Committee, would have required commercial financing lenders and brokers who provide financing to small businesses or connect small businesses to financing offers to be licensed under the CFL. Like SB 728, SB 1482’s threshold for “small business” was a business with annual gross receipts of up to \$16 million, and the bill extended to commercial financing offers of up to \$500,000. The bill was subsequently substantially narrowed to merely prohibit certain business practices in connection with small business financing.
- SB 869 (Glazer, 2023) was substantially similar to SB 1482, with some differences relating to APR-related disclosures and notice requirements.

⁶ The California Low-income Consumer Coalition is a sponsor of this bill but did not sponsor the previous measures.

This Committee passed all three bills, but each eventually stalled in the Appropriations Committee of either the Senate or Assembly.

Unlike the prior three attempts, the commercial financing industry is generally in favor of the CFL expansion proposed by this bill, though there are still some remaining disputes. Prior bills elicited arguments that were more fundamental to the structure of those bills, such as that the effort to license commercial financing entities was premature, that many of the proposed industry-specific conduct requirements should not apply, or that a proposed registration scheme under a different law was not appropriate. With this bill, there is broad agreement among small business advocates and commercial financing providers related to the core structure of the bill (i.e., licensing providers and brokers under the CFL framework). The author agreed to amendments in the Senate Banking and Financial Institutions Committee which responded to many of the industry's concerns, and has agreed to two additional amendments in response to one of the two remaining opposition groups, set forth below.

5. Amendments

As noted above, the author has agreed to amendments that address concerns raised by the Revenue Based Finance Coalition. The amendments are set forth below, subject to any nonsubstantive changes the Office of Legislative Counsel may make.

Amendment 1

Delete Section 26 of the bill.

Amendment 2

Recodify the existing Section 22807 of the Financial Code as Section 22808 of the Financial Code, and add the below as the new Section 22807:

The commissioner may require that rates of charge be stated fully and clearly in the manner that the commissioner deems necessary to prevent misunderstanding by prospective borrowers or recipients.

6. Arguments in support

According to the bill's sponsors:

AB 2116 solves two problems:

1) The "wild west" of small business financing and brokering – Today, brokers routinely "steer" small business owners into financing that pays the broker the

highest fee while charging the small business owner an unnecessarily high rate, echoing one of the causes of the subprime mortgage crisis. In fact, investigative reports have shown that many subprime mortgage brokers who lost their mortgage licenses simply moved over to the unregulated “wild west” of small business financing.

AB 2116 empowers that State to ensure that small business owners can make informed decisions and report bad actors, by establishing an oversight framework and transparency about the products and costs associated with the product that a commercial broker offers the small business owner on behalf of a high-cost commercial lender.

2) Unfair practices in the financing shadows - While small business lenders are subject to oversight by DFPI, similar products that purport not to be loans evade these requirements and operate in the shadows. Additionally, California’s 2022 ban on “confessions of judgement” (SB 688) is easily circumvented by legal devices used to take money straight from a small business owner's bank account without legal recourse. And “confidentiality clauses” are used to bully a small business owner into keeping silent about their experience and unexpected costs.

AB 2116 will catalyze fair lending to small businesses by preventing bad-actor financing companies from taking unfair advantage of their competition and of small business customers.

7. Arguments in opposition

According to the Innovative Lending Platform Association:

For over three years, ILPA has advocated for updating the definitions of Division 9 to include providers and brokers of non-loan commercial financing products, creating a single, uniform, and clearly understood regulatory framework for all commercial financing products. Specifically, we believe the legislature should strike the bill’s definition of “commercial financing provider” and instead replace the existing definition of “commercial loan” with “commercial finance,” and expand that definition to include asset-backed transactions, such as merchant cash advances and factoring transactions, as defined in the Commercial Financing Disclosure Law (Division 9.5). This approach would allow the California Financing Law to comprehensively regulate all commercial financing products and the brokers who facilitate them under a single, well-established licensing framework. Such an approach would avoid regulatory duplication, reduce compliance uncertainty, and better achieve the bill sponsor’s stated goal of creating a level playing field through a consistent, uniform regulatory framework for commercial financing providers.

SUPPORT

CAMEO Network (co-sponsor)
California Low-Income Consumer Coalition (co-sponsor)
Responsible Business Lending Coalition (co-sponsor)
Small Business Majority (co-sponsor)
Access Plus Capital
Accessity
Asian Pacific Islander Small Business Collaborative
ASIAN, Inc.
Asociation de Emprededor@s
California Coalition for Community Investment
Capitol Business Alliance
Community Development Services
Consumer Coalition of California
Economic Development & Financing Corporation
El Pajaro Community Development Corporation
Friends of the Public Bank East Bay
ICA
ICON CDC
Jefferson Economic Development Institute
Kapitus
MicroCare Community Development Solutions
Microenterprise Collaborative of Inland Southern California
Narratur Studio
Pacific Community Ventures
Public Counsel
Rapid Finance
Rise Economy
Santa Clarita Valley Chamber of Commerce
The Greenlining Institute
Uptima Entrepreneur Cooperative
Valley Industry Association of Santa Clarita
West Business Development Center
Women's Economic Ventures
Responsible Business Lending Coalition

OPPOSITION

Innovative Lending Platform Association
Revenue Based Finance Coalition

RELATED LEGISLATION

Pending legislation: None known.

Prior legislation:

SB 728 (Padilla, 2025) is discussed in Comment 4 of this analysis. SB 728 bill died in the Senate Appropriations Committee.

SB 1482 (Glazer, 2024) is discussed in Comment 4 of this analysis. SB 1482 bill died on the Assembly inactive file.

SB 869 (Glazer, 2024) is discussed in Comment 4 of this analysis. SB 869 died in the Senate Appropriations Committee.

PRIOR VOTES

Senate Banking and Financial Institutions Committee (Ayes 6, Noes 0)
Assembly Floor (Ayes 73, Noes 0)
Assembly Appropriations Committee (Ayes 15, Noes 0)
Assembly Banking and Finance Committee (Ayes 9, Noes 0)
