



STATE OF CALIFORNIA

Department of Financial Protection and Innovation

GOVERNOR **Gavin Newsom** • COMMISSIONER **Clothilde V. Hewlett**

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DFPI’s Commercial Financing Disclosure Regulations Approved to Become Effective as of December 9, 2022

SACRAMENTO – On June 9, 2022, the California Office of Administrative Law (OAL) approved the Department of Financial Protection and Innovation’s (DFPI) proposed commercial financing disclosure regulations. The regulations extend disclosure protections to California small businesses when those businesses seek commercial financing. When the disclosures take effect on Dec. 9 of this year, California small businesses will be better-equipped to understand the costs and benefits of commercial financing offers, and to compare different offers to find the best financing solution to meet their needs. The [final regulations](#) and [Final Statement of Reasons](#) are posted to the DFPI website.

“I applaud the fine work of everyone involved in developing these significant financing disclosures for small businesses,” said DFPI Commissioner Clothilde V. Hewlett. “These first-in-the-nation protections for small business borrowers are a major milestone in financial services oversight in California and a model for other states to follow.”

OAL’s approval of the proposed regulations is the culmination of a multi-year process in which the DFPI solicited input from a diverse range of stakeholders and used that input to improve the DFPI’s draft regulations. On September 30, 2018, California enacted SB 1235 (Glazer), a bill requiring commercial financing providers to provide disclosures to small businesses. The bill required providers to disclose the total amount of funds provided, the total dollar cost of financing, the term or estimated term, the method, frequency, and amount of payments, a description of prepayment penalties, and (until January 1, 2024) the total cost of financing expressed as an annualized rate. The California Legislature tasked the DFPI with issuing regulations before the above-described requirements would take effect.

After SB 1235’s passage, the DFPI provided stakeholders three informal opportunities to comment in writing about the proposed commercial financing disclosure regulations, followed by six additional opportunities to comment on the regulations during the formal rulemaking process. The DFPI incorporated extensive revisions to improve the proposed regulations based upon stakeholder input during this process.

The regulations finalized on June 9, 2022, will require commercial financing providers across a wide range of industries to disclose the information required by the Legislature. The industries subject to the regulation include, among others, providers of traditional installment loans and open-end credit,

commercial factoring, and merchant cash advances. Providers will be required to disclose metrics such as the amount of funding the small business will receive, the Annual Percentage Rate calculated for the transaction, a payment amount (if applicable), the term, details related to prepayment policies, and (for products without a monthly payment) an average monthly cost. Taken together, the regulations will assist small businesses in making more informed decisions about the potential costs of various commercial financing options.

The DFPI licenses and regulates state-chartered banks and credit unions, nonbank installment lenders, commodities and investment advisers, money transmitters, the offer and sale of securities and franchises, broker-dealers, payday lenders, mortgage lenders and servicers, escrow companies, Property Assessed Clean Energy (PACE) program administrators, debt collectors, credit repair and consumer credit reporting agencies, debt-relief companies, certain rent-to-own providers, and more.

For more information about the DFPI, visit their website at <https://dfpi.ca.gov/>.

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