



**Commissioner's Report on the Offer or Sale of
Securities by Permit under Corporations Code Section
25113 for 2020**

**California Department of
Financial Protection and Innovation**



PROTECTING CONSUMERS
FOSTERING TRUST & INNOVATION

DFPI 
DEPARTMENT OF FINANCIAL
PROTECTION & INNOVATION



DEPARTMENT OF FINANCIAL
PROTECTION & INNOVATION

DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION LEADERSHIP

Lourdes M. Castro Ramírez, Secretary

Business, Consumer Services and Housing Agency

Clothilde V. Hewlett, Commissioner

Department of Financial Protection and Innovation

Bret Ladine, General Counsel

Department of Financial Protection and Innovation

Jennifer Rumberger, Deputy Commissioner

Legal

Theresa Leets, Assistant Chief Counsel

Legal

TABLE OF CONTENTS

Department of Financial Protection & Innovation Leadership	2
Table of Contents.....	3
Introduction	4
2020 Summary.....	4
General Categories of Investment.....	4
Permits Issued by Category	4
Investor Suitability Standards.....	5
Category Standards	5
Standards for Issuers or Sponsors.....	6
Experience Requirements	6
Net Worth Requirements	6
Issuer Standards	6
Total Amount Sought to be Raised by Category	7
Yearly Trends.....	7
Enforcement Actions	7

INTRODUCTION

Under California law, only securities that are qualified by the Department of Financial Protection and Innovation (DFPI) or exempt from qualification may be offered or sold in this state.¹ To qualify a security, application documents must be submitted to the DFPI for review before money may be raised from investors. Securities that are exempt under state law need not be qualified by the DFPI provided that issuers adhere to the rules which apply to the exemption under which they are operating.²

To increase real estate investor protections and provide greater transparency over the activities of issuers who solicit real estate investments, the DFPI has issued a yearly summary of securities since 2013 qualified by permit and pursuant to Corporations Code section 25113, subdivision (b).³ This report summarizes data for the previous calendar year and contains the following information:

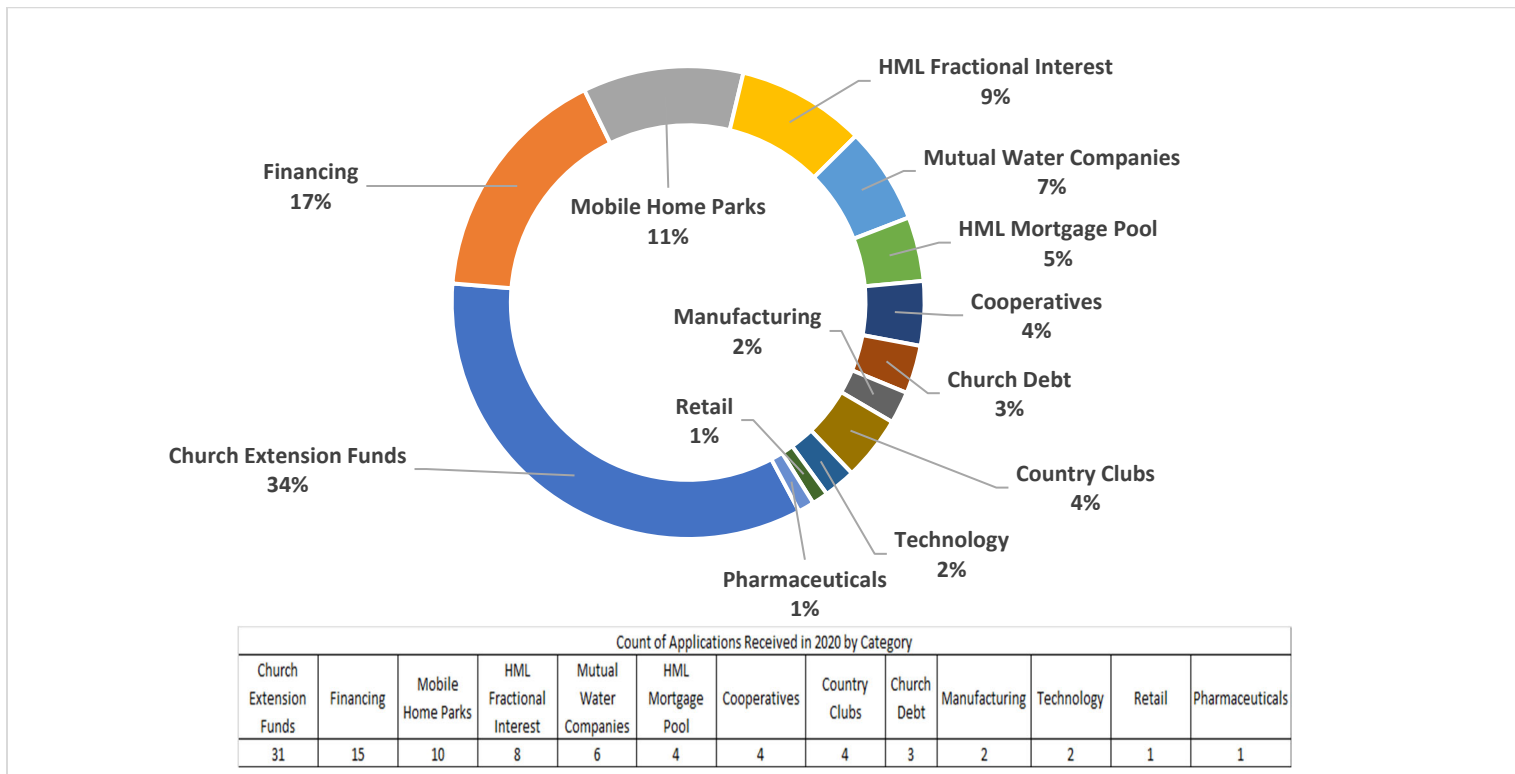
- The general categories of investments for which permits were approved.
- The experience and net worth requirements imposed on issuers or sponsors.
- The total amount of money sought to be raised per category.
- Enforcement actions taken against permit holders.
- Any other information deemed relevant.

2020 SUMMARY

General Categories of Investment

In 2020, the DFPI issued 91 permits under Corporations Code section 25113 in the following categories of investment: agriculture, banking, church debt, church extension funds, cooperatives,⁴ country clubs, educational services, financing,⁵ food and drink, hard money lenders,⁶ manufacturing, mobile home parks, mutual water companies, pharmaceuticals, real estate investment trusts (REITs), retail, and sports and recreation.

Permits Issued by Category



¹ See the Corporate Securities Law of 1968 (Corp. Code, § 25000 *et seq.*; Cal. Code Regs., tit. 10, § 260.140 *et seq.*).

² *Id.*

³ SB 879 (Vargas and Price); Corp. Code, § 25113, subd. (d).

⁴ Cooperatives include hardware retailers, grocers, and professional services providers.

⁵ Financing includes non-profit 501(c)(3) and for-profit companies financing through debt.

⁶ Hard money lenders include mortgage pools and fractional interest investments.

INVESTOR SUITABILITY STANDARDS

To better protect consumers and foster trust in the market, the DFPI has broad discretion to set standards for the offer and sale of securities.⁷ The DFPI may require investors to meet specific qualifications related to experience, level of financial responsibility, tax status, or any other criteria the DFPI deems necessary.⁸ These “investor suitability” standards are imposed as needed and depend upon the securities issued. As reflected in the table below, both the least stringent and most stringent standards varied by category of investment in 2019. For some investment categories, the suitability standard imposed was limited to California residents.⁹ In most cases, however, the DFPI restricted the offer and sale of the securities to persons having a minimum gross income and minimum net worth or limited the percent of net worth a person could invest.

Category Standards

Category of Investment	Least Stringent Standard	Most Stringent Standard
Church Debt	Church members and friends	Church Members or affiliates
Church Extension Fund	Church members	\$75,000 NW or \$75,000 GI and \$150,000 NW with an investment cap of 10% of investor's NW
Cooperatives	Employees	Individuals licensed as a physician or surgeon in California
Country Clubs	\$500,000 NW or \$65,000 GI and \$250,000 NW with an investment cap of 10% of investor's NW	\$1M net worth or \$100,000 GI and \$500,000 NW
Financing	No automatic reinvestment at maturity	\$500,000 NW or \$65,000 GI and \$250,000 NW
HML Fractional Interest	\$500,000 NW or \$65,000 GI and \$250,000 NW with an investment cap of 10% of investor's NW	\$200,000 individual GI or \$300,000 GI with spouse and \$1,000,000 net worth and Regardless of compliance method there is an investment cap of 10% of investor's NW
HML Mortgage Pool	\$500,000 NW or \$65,000 GI and \$250,000 NW with an investment cap of 10% of investor's NW	\$500,000 NW or \$65,000 GI and 350,000 NW with an investment cap of 10% of investor's NW
Manufacturing	Eligible employee	\$500,000 NW with an investment cap of 10% of investor's NW or \$65,000 GI and \$250,000 NW or \$2,500 investment cap for past 12 months
Mobile Home Parks	Residents of the park	Residents of the park
Mutual Water Companies	Appurtenant to property	Appurtenant to property
Pharmaceuticals	Eligible employees	Eligible employees
Retail	Eligible employees	Eligible employees
Technology	Dividend Reinvestment plan to existing investors	10% investment cap on GI or NW

⁷ See Corp. Code, § 25000 *et seq.*; Cal. Code Regs., tit. 10, § 260.140 *et seq.*

⁸ Cal. Code Regs., tit. 10, § 260.140.01.

⁹ Cal. Code Regs., tit. 10, § 260.001, subd. (e).

STANDARDS FOR ISSUERS OR SPONSORS

Experience Requirements

The securities permit application requires the issuer to explain the applicant's business experience. The DFPI evaluates the issuer's explanation along with other information provided in the application. There is no experience requirement that applies to all issuers. However, regulations promulgated by the DFPI set experience standards for issuers or sponsors in a real estate program¹⁰ and oil and gas offerings.¹¹

In a real estate program, the general partner of the sponsor must have at least two years of real estate experience or other experience relevant to acquiring and managing the types of properties sought by the program.¹² Additionally, any affiliate providing service to the program must have no less than four years of experience or otherwise demonstrate knowledge and experience to render the proposed services.¹³

In an oil and gas offering, the general partner or its chief operating officers must have at least three years of relevant oil and gas experience needed to successfully manage operations.¹⁴ Additionally, the general partner or any affiliate providing services to the program must have at least four years of relevant experience in the services being rendered or otherwise demonstrate sufficient knowledge and experience to perform the proposed services.¹⁵

Net Worth Requirements

Corporations Code section 25113, subdivision (d), mandates that the DFPI report on the "minimum, maximum, and average net worth required of those persons to whom permits are issued for each category." The DFPI, however, generally does not require specific net worth or minimum capital requirements for the issuer or sponsor unless required to do so by rule. As such, regulations governing REITs,¹⁶ real estate programs,¹⁷ and oil and gas interests¹⁸ specify net worth requirements.

Issuer Standards

Category of Investment	Minimum Net Worth	Maximum Net Worth	Average Net Worth
Church Debt	\$2,092,866	\$7,529,076	\$4,069,205
Church Extension Funds	\$49,138	\$269,252,226	\$53,028,652
Cooperatives	\$12,097,690	\$289,790,000	\$110,560,230
Country Clubs	- \$22,783,410	\$44,333,277	- \$12,244,485
Financing	- \$462,390	\$164,409,174	\$38,982,460
HML-Fractional Interest	\$256,856	\$18,576,643	\$4,144,092
HML-Mortgage Pool	\$1,500	\$31,240,636	\$10,849,385
Manufacturing	- \$8,254	\$1,572,584,000	\$786,287,873
Mobile Home Parks	\$526,596	\$24,946,932	\$6,049,455
Mutual Water Companies	- \$5,454	\$22,873,710	\$5,265,317
Pharmaceuticals	\$47,517,000,000	\$47,517,000,000	\$47,517,000,000
Retail	\$18,611,000,000	\$18,611,000,000	\$18,611,000,000
Technology	\$1,465,000	\$2,549,049	\$2,007,025

¹⁰ Cal. Code Regs., tit. 10, § 260.140.111.1.

¹¹ Cal. Code Regs., tit. 10, § 260.140.122.1.

¹² Cal. Code Regs., tit. 10, § 260.140.111.1.

¹³ *Id.*

¹⁴ Cal. Code Regs., tit. 10, § 260.140.122.1.

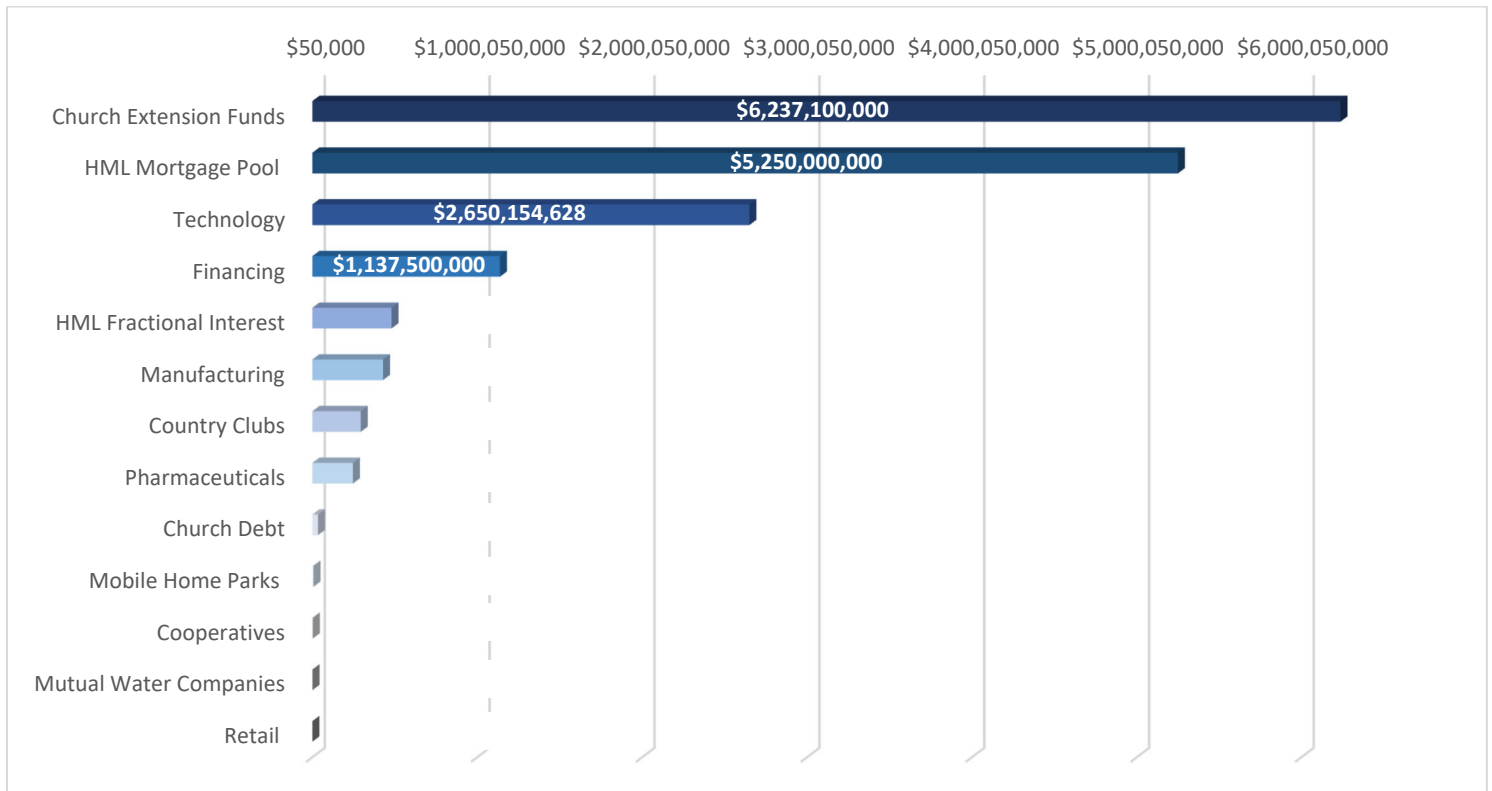
¹⁵ *Id.*

¹⁶ Cal. Code Regs., tit. 10, § 260.140.91.

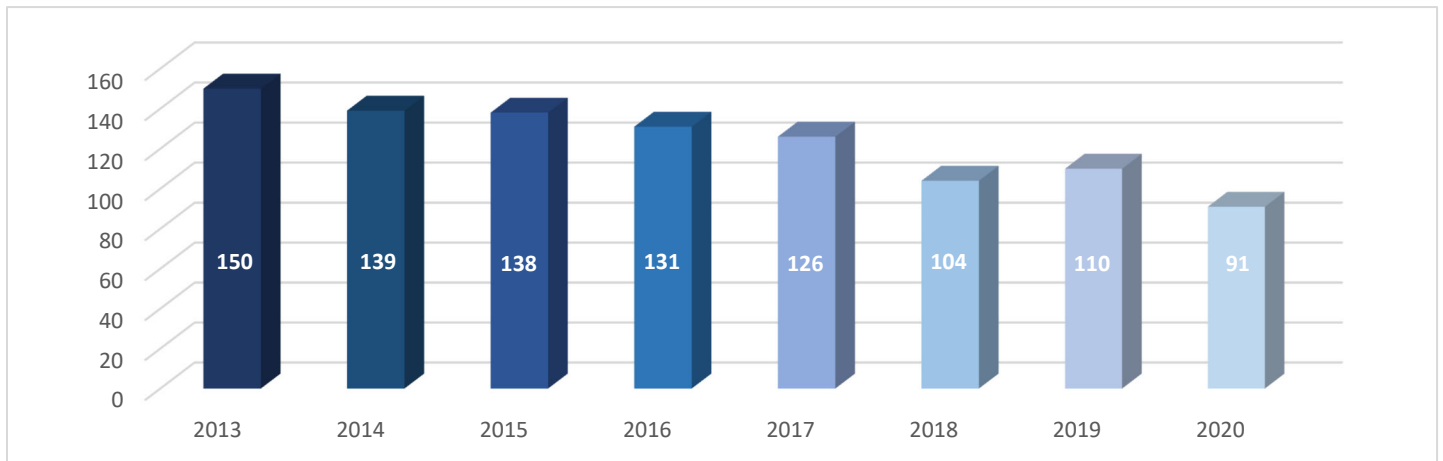
¹⁷ Cal. Code Regs., tit. 10, § 260.111.2.

¹⁸ Cal. Code Regs., tit. 10, § 260.140.122.2.

TOTAL AMOUNT SOUGHT TO BE RAISED BY CATEGORY



YEARLY TRENDS



In 2020, the number of permits issued under Corporations Code section 25113 decreased by 17 percent from the prior year and has declined 39 percent over the past eight years.

ENFORCEMENT ACTIONS

In 2020, the DFPI had 31 enforcement actions against permit holders in violation of Corporations Code section 25401.