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CA DFPI One Step Closer to Finalizing CFL Commercial Loan Disclosure Regulations

By: Melissa Richards

The California Department of Financial Protection and Innovation (fka Department of Business Oversight) is one step closer to issuing final regulations that would impose new early disclosure requirements on covered commercial lenders that are CFL licensed or subject to CFL licensing. On September 11, 2020, DFPI issued **4th Round Proposed Commercial Loan Disclosures**. The DFPI's rulemaking is required by California Financial Code 22804 after California enacted **SB 1235 in 2018**. SB 1235 (2018) adds a new Division 9.5 - Commercial Loan Disclosures to the California Financing Law, adding new Finance Code Sections 22801-22804. The disclosure law applies to commercial lenders under the California Financing Law when extending a specific offer of **commercial financing other than commercial mortgage financing**. The purpose of these "early" disclosures is to encourage and assist commercial loan borrowers to shop for the best loan for their financial needs.

The DFPI's 4th round of proposed rules address the following commercial loan transactions specifically as well as "all other" types of covered transactions:

- Factoring Agreements;
- Open- and Closed-end Commercial Loans;
- Open-end Credit Plans;
- Sales-based Financing;
- Lease Financing;
- Asset-Based Financing.

These regulations adopt Truth-in-Lending Act/Regulation Z type disclosure including:

- Total amount of funds provided;
- Estimated Annual Percentage Rate (applying TILA/Regulation Z definition - cost of financing expressed as a yearly rate);
- Finance Charge - both Total and Itemized;
- Payments - method, frequency and terms;
- Estimated Term of the proposed transaction;
- Loan Prepayment terms.

The comment period ended October 28, 2020 and the DFPI held a public hearing on November 9th to receive further comments from the public and stakeholders. A copy of the proposed rulemaking is attached [HERE](#). The DFPI has set target dates for final rule publication (January 1, 2021) and effective date (July 1, 2021),

Please reach out to **Melissa Richards** (mrichards@buchalter.com) for assistance in understanding the proposed rule provisions, and for assistance in readying your company for final California commercial loan disclosure rules.



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