# DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

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The Department of Financial Protection and Innovation (DFPI) serves as California's primary regulator of financial service providers and products. DFPI was previously known as the Department of Business Oversight (DBO) until September 29, 2020, when Governor Newsom signed AB 1864 (Limón) (Chapter 157, Statutes of 2020), which renamed the Department of Business Oversight to the Department of Financial Protection and Innovation. The bill allowed DFPI to retain all the powers, duties, responsibilities, and functions of DBO. *[26:1 CRLR 213–215]*

As part of Governor Brown's 2012 "Governor's Reorganization Plan (GRP)," DBO (now DFPI) was formed by merging the Department of Corporations (DOC) and the Department of Financial Institutions (DFI). DFPI operates within the Business, Consumer Services, and Housing Agency. DFPI's executive officer, the "Commissioner of Financial Protection and Innovation," oversees the Department. DOC and DFI continue to operate as individual divisions within DFPI and are led by a Senior Deputy Commissioner of Corporations and Financial Institutions.

DFPI, as a whole, seeks to provide services to businesses and protect consumers involved in financial transactions. The rules promulgated by DFPI are outlined in Division 3, Title 10 of the California Code of Regulations (CCR). Its statutory jurisdiction includes the Corporate Securities Law of 1968 (Corporations Code section 25000 et seq.), which requires the "qualification" of all securities offered and/or sold in California. "Securities" are broadly defined and may include various business opportunities in addition to traditional stocks and bonds. Many securities may be qualified through compliance with the federal Securities Acts of 1933, 1934, and 1940. If the securities are not under federal qualification, the Commissioner may issue a permit for their sale in California.

The Commissioner also enforces a group of more specific statutes involving other business transactions: the California Banking Law (Financial Code section 1000 et seq.); the California Financing Law (Financial Code section 22000 et seq.); the California Residential Mortgage Lending Act (Financial Code section 50000 et seq.); the Franchise Investment Law (Corporations Code section 31000 et seq.); the Security Owners Protection Law (Corporations Code section 27000 et seq.): the California Commodity Law of 1990 (Corporations Code section 29500 et seq.); the Escrow Law (Financial Code section 17000 et seq.); the Check Sellers, Bill Payers and Pro-raters Law (Financial Code section 12000 et seq.); the Securities Depository Law (Financial Code section 30000 et seq.); the Capital Access Company Law (Corporations Code section 28000 et seq.); the California Consumer Financial Protection Law (CCFPL) (Financial Code section 90000 et seq.) and Student Loan Servicing Act (Financial Code section 28100 et seq.).

DFPI consists of the following divisions: (1) the Administrative Division, which provides DFPI with administrative support services; (2) the Consumer Services Division, which develops public affairs strategies; (3) the Division of Consumer Financial Protection, which supervises and regulates financial activities not previously overseen by the Department, such as debt collection, debt relief, private post-secondary education finance, and newly emerging financial products or services; (4) the Division of Corporations and Financial Institutions; (5) the Enforcement Division, which enforces the laws administered by DFPI; (6) Executive Office; (7) the Information Technology Office, which is for vc support services; (8) the Legal Division, which includes all in-house legal counsel; (9) the Legislation Division, which monitors and tracks all bills related to

DFPI and provides guidance on legislative issues; and (10) the Communications Division, which offers strategic messaging, media relations, and digital communications support.

On March 4, 2024, the California State Senate unanimously confirmed Greg Young as DFPI Senior Deputy Commissioner of Corporations and Financial Institutions. Governor Newsom initially appointed Young on March 29, 2023. Young joined the Department on March 30, 2023, in San Francisco. Young was previously a Vice President and Market Growth Consultant at Wells Fargo from 2016 to 2018, a Life Agent at New York Life Insurance Company from 2019 to 2021, and a Community Lending Manager at Umpqua Bank since 2021.

# MAJOR PUBLICATIONS

The following reports/studies/guidelines have been conducted by or about DFPI during this reporting period:

- ***Commissioner's Report on the Offer or Sale of Securities by Permit under Corporations Code Section 25113 for 2022***, DFPI, December 2023 (Report summarizes data on DFPI's general categories of investments, standards for issuers or sponsors, net worth requirements, yearly trends in permit issuance, and notices of exempt filings in California during the previous calendar year. In 2022, DFPI issued 92 permits under Corporation Code section 2513. Throughout the previous reporting period of 2022, DFPI issued 42 enforcement actions against 62 entities and individuals for violating the offer or sale of securities, including consent orders, desist and refrain orders, requests for penalties or ancillary relief. In the same period, DFPI reports 24,433 fillings under Corporate Securities Law of 1968 section 25102.1(d), mandating issuers of Exempt Offerings to file copies of Form D with the DFPI when the individual is in California. The report details DFPI's effort in regulating and managing emerging and complex securities products, strengthening its relationship with stakeholders, and committing to more educational programs for prospective investors.)

- ***2023 Leadership Accountability Report***, DFPI, December 20, 2023 (p-er the State Leadership Accountability Act, DFPI submitted this report on the review of its internal control and monitoring systems for the biennial period ending December 31, 2023.)

- ***2023 Annual Activity Reports***, DFPI, January 2024 (Report covers the opening, closing, and merger of commercial banks, credit unions, premium finance companies, representative offices of foreign banks, trust powers, and money transmitters during the calendar year of 2023. The report highlights DFPI's commitment to fair and transparent financial practices and dedication to combat emerging cyber threats and fraudulent activities that protect consumers' needs.)

- ***Annual Report of Activity Under the California Consumer Financial Protection Law***, DFPI, April 2024 (Per the Financial Code section 90018, this report details actions taken during the prior year under the CCFPL, in rulemaking, enforcement, oversight, consumer complaints and resolutions, education and outreach, and the activities of the Office of Financial Technology and Innovation.)

# RULEMAKING

The following is a status update on recent rulemaking proceedings that DFPI has initiated:

- **PRO 01/21 CCFPL, CFL, CDDTL, and SLSA – Registration Requirements under the CCFPL:** On January 17, 2024, DFPI published the second modifications to proposed text and a notice of second modification to proposed action and provided until February 6, 2024, for comments regarding the revised draft. DFPI's newly published draft made a repeal to section

1462 (Licensure of Advance Providers) and added to section 1466 (Loans with Income-Driven Repayment options). On March 14, 2024, DFPI filed PRO 01-21 with the Office of Administrative Law (OAL).

DFPI originally noticed the proposed action on April 5, 2023. At the time of notice, DFPI published the Initial Statement of Reasons along with a text of proposed regulations. *[28:2 CRLR 98–99]* The proposed regulation creates registration requirements for covered persons under the CCFPL, exemption for licensees under the CFL, CDDTL, and SLSA. *[see 29:1 CRLR 107–108; 28:2 CRLR 98–99]*

- **PRO 7/21 – Investment Adviser Representative Continuing Education**: On December 15, 2023, OAL disapproved the Department's rulemaking file for failure to comply with the clarity standard of the Administration Procedure Act. Following its denial, on February 15, 2024, DFPI issued notice of modifications to proposed regulation and the modified text of regulation. All written public comment was submitted by March 1, 2024. DFPI initially published notice on these amendments on January 16, 2023, which proposes to adopt Title 10 of the CCR, section 260.236.2, to protect consumers who use investment advisers to manage their funds and improve the quality of investment advising. The amendments would continue education requirements for investment adviser representatives who provide advice to others directly or through writings in regular business, published analyses, or reports. *[see 28:2 CRLR 102]*

- **PRO 02/23 DFAL "Digital Financial Asset Law":** On October 13, 2024, the California signed California Digital Financial Assets Law, originally known as AB 39 (Grayson) (Chapter 792, Statutes of 2023) and SB 401 (Limon) (Chapter 871, Statutes of 2023) into law, titled "Digital Financial Asset Transaction Kiosks." The bill will take effect in July 2025. It requires digital asset business with or on behalf of a California resident to be licensed with the

DFPI. DFPI will issue a conditional license to individuals who received their license with the NYDFS before January 1, 2023. Virtual currency ATM operators are required to comply with the new law's limitation on acceptance of dispensing amounts and transaction disclosure requirements.

On November 20, 2023, DFPI invited public comments. The comment period ended on January 12, 2024. *[see 29:1 CRLR 107-108]*

- **PRO 01/23-Debt Collection Regulations: Net Proceeds and Annual Reports**: On February 9, 2024, DFPI published notice of proposed action, with supporting documents: original text of proposed regulations and initial statement of reasons. This rulemaking action would amend section 1850 and adopt section 1850.70 of subchapter 11.3 of Title 10 of the CCR.

DFPI administers and enforces the Debt Collection Licensing Act (DCLA), which requires debt collectors located in California or out of California seeking to collect debts from California residents to be licensed by law. This includes either businesses or individuals who engage in debt collection or debt buying, who compose and sell or offer to do so. DFPI issued the first debt collector license in 2023, and the first assessment will occur in 2024. The rulemaking action proposes clarifying terms and establishing additional annual reporting requirements. Each licensee would be required to file an annual report with the Commissioners and disclose certain information in the report and grants authority to the Commissioner to reasonably require additional information from licensees to include in their report relating to the business and operations they conducted. The public comment period ended on March 27, 2024.

# LEGISLATION

- **AB 1296 (Grayson),** as amended April 11, 2023, amends, repeal, and add section 90018 of the Financial Code. Under current law, DFPI is required to prepare and publish an annual report of its actions of the previous calendar year. DFPI is required to disclose information regarding its rulemaking, enforcement, oversight, consumer complaints and resolutions, education, and research. This bill would require, until January 1, 2028, DFPI to separate information regarding crypto assets and associated consumer financial products and services in its annual CCFPL report apart from other consumer financial products and services. *[A. B&F]*

- **AB 2422 (Grayson)**, as amended March 20, 2024, adds Chapter 11, commencing with section 900, to Division 1 of the Financial Code. This bill would authorize DFPI, beginning January 1, 2027, to utilize existing resources from state government departments, non-profit organizations, and community groups to generate an online resource page related to financial abuse of victims of domestic violence for the purpose pf protecting the survivors' assets and resources. The resource page would be available to financial institutions and the general public. *[A. Appr]*

- **SB 1482 (Glazer)**, as amended April 9, 2024, would amend various sections of the Financial Code, as related to commercial financing. Under current law, the CFL authorizes DFPI through its Commissioner, to license and regulate financial lenders and brokers, which includes the regulation of commercial loans. This bill would expand the CFL to cover specified commercial financing transactions offered to small businesses and would establish requirements and prohibitions on commercial financing providers and brokers engaged in such transactions. According to the author, "SB 1482 will prevent exploitive actions by creating a licensing structure for brokers and providers who evade regulation." This bill would give DFPI the ability to protect small business by giving it enforcement abilities over providers and brokers in this area. *[S. B&FI]*

- **AB 3148 (Chen)**, as introduced February 16, 2024, would amend section 90018 of the Financial Code. This bill would require DFPI in its CCFPL annual report to include information about the Office of the Ombuds. According to the author, this bill will update the

CCFPL's report requirements to ensure that DFPI is accountable and responsible to the public. *[A. Appr]*

# LITIGATION

- ***In re Commissioner of Financial Protection and Innovation v. Credova Financial, LLC***: On January 9, 2024, DFPI entered into a consent order with Credova Financial, LLC. Since January 1, 2021, Credova has provided an online platform allowing merchants to offer installment contracts to customers, including California residents, for financing goods and services. Credova used a third-party servicer (Servicer) to handle all contracts. The Servicer informed consumers before their first payment that their account was assigned for servicing and provided fee-free payment options, along with other options that included convenience fees: $15 for phone payments, $10 for one-time online payments, and $2 for recurring online payments.

Initially, Credova did not disclose these potential convenience fees in the consumer's initial contract, only ensuring a fee-free payment method. As a result, consumers learned about the optional convenience fees after agreeing to the contract. In February 2022, Credova amended the contract to include information about these fees.

The Commissioner deemed Credova's conduct deceptive for not informing consumers about possible convenience fees upfront, which was considered material information needed for evaluating the contract. The Commissioner concluded that Credova's actions violated the CCFPL by engaging in deceptive practices. Credova agreed to a Consent Order without admitting or denying the findings. The consent order requires a $50,000 fine and a disclosure of potential third-party convenience fees to its consumers in the future.