Date of Hearing: July 7, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Avelino Valencia, Chair
SB 784 (Durazo) – As Amended May 1, 2025

SENATE VOTE: 27-2

SUBJECT: Home improvement loans: right to cancel contracts

SUMMARY: This bill adds requirements and restrictions related to home improvement loans to increase consumer protections.

EXISTING LAW:

Federal

The Trade Regulation Rule Concerning Preservation of Consumers' Claims and Defenses (also known as the Holder in Due Course Rule), requires a seller that arranges direct loan financing for its customers to include a specified provision in the loan contract that subjects the holder of the loan contract to all claims and defenses which the debtor could assert against the seller of goods or services obtained with the proceeds of the loan. (16 Code of Federal Regulations 433.2)

1. Recovery under the holder rule is capped at the amount the debtor paid under the contract. (16 C.F.R. Section 433.2).
2. Attorney fees, costs, and prejudgment interest are recoverable by a prevailing debtor exercising the holder rule. *Melendez v. Westlake Services, LLC* (2022) 74 Cal.App.5th 586.

State

1. Provides requirements related to home improvement contracts, including which projects require a home improvement contract and specified contract requirements.
   a. Defines "home improvement" to include the repairing, remodeling, altering, converting, or modernizing of, or adding to, residential property, including the construction, erection, installation, replacement, or improvement of driveways, swimming pools, terraces, patios, awnings, storm windows, solar energy systems, landscaping, fences, porches, garages, fallout shelters, basements, and other improvements of the structures or land which is adjacent to a dwelling house, as well as the installation of home improvement goods or the furnishing of home improvement services, as specified. (Business and Professions Code Section 7151)
   b. Defines "home improvement contract" as an agreement between a contractor and an owner or between a contractor and a tenant, if the work is to be performed in, to, or upon the residence or dwelling unit of the tenant, for the performance of a home improvement, and includes all labor, services, and materials to be furnished and performed thereunder, if the aggregate contract price specified in one or more improvement contracts, including all labor, services, and materials to be furnished by the contractor, exceeds $500. (Business and Professions Code Section 7159(b))

   c. Provides consumers with a right to cancel the home improvement contract within three days, unless the consumer is a senior citizen for whom the law grants a five-day right to cancel. (Business and Professions Code Section 7159(c))

2. Provides that failure of a licensed contractor or a person subject to licensure, or their agent or salesperson, to comply with specified home improvement contract requirements, including the following, is cause for discipline:

   a. The contract must be in writing and include the agreed contract amount in dollars and cents. The contract amount must include the entire cost of the contract, including profit, labor, and materials, but not finance charges.

   b. If a downpayment will be charged, the downpayment cannot exceed $1,000 or 10 percent of the contract amount, whichever amount is less.

   c. Except for a downpayment, a contractor cannot request nor accept payment that exceeds the value of the work performed or material delivered. This prohibition includes advance payment in whole or in part from any lender or financier for the performance or sale of home improvement goods or services. (Business and Professions Code Section 7159.5)

3. Provides requirements related to home solicitation contracts, including rights to cancel and specified disclosures related to such rights:

   a. Defines "home solicitation contract or offer" to mean a contract for the sale, lease, or rental of good or services made at other than appropriate trade premises, as specified, in an amount of $25 or more. Provides that "services" does not included financial services unless those financial services are connected with the sale of goods or services. (Civil Code Section 1689.5)

   b. Provides a buyer the right to cancel a home solicitation contract within three business days, or five business days if the buyer is 65 or older. (Civil Code Section 1689.6)

4. Provides the Contractors State License Law that regulates contractors and authorizes the Contractors State License Board (CSLB) to bring enforcement action against contractors who violate the law. (Business and Professions Code Section 7000, et seq.)

THIS BILL

1. Extends the right to cancel a home improvement or home solicitation contract from three days to five days for consumers younger than 65 years old and from five days to seven days for consumers 65 years and older.

2. Regulates activities related to a "home improvement loan" which is defined to mean a consumer loan that will be disbursed to a contractor in connection with a home solicitation contract to finance a home improvement.

3. Provides that a consumer's repayment obligations under a home improvement loan shall not commence until the lender has satisfied one of the following:

   a. For a home improvement that is not a solar energy system, either:

      i. Confirmed that all home improvements financed in whole or in part by the home improvement loan have been given final approval by all permitting agencies and that the improvements are operational, or

      ii. Completed a reasonable investigation and determined that all home improvements are operational.

   b. For a home improvement that is a solar energy system, the lender has confirmed that the utility has connected the solar energy system and has granted permission to operate, and the consumer confirms, orally and in writing, that the solar energy system is operating.

4. Prohibits a lender from reporting a home improvement loan to a credit reporting agency or from recording a financing statement in connection with the home improvement loan until the consumer repayment obligations have commenced pursuant to #3 above.

5. Prohibits a lender making a home improvement loan from providing any direct or indirect cash payment or other thing of material value to a third party in excess of the actual price charged by that third party for the home improvement financed by the home improvement loan.

6. Requires a lender to do all of the following before a consumer executes a contract for a home improvement loan and before the right-to-cancel period expires under the home improvement contract:

   a. Obtain a copy of the home improvement contract.

   b. Complete and document a telephone call, as specified, to make oral confirmations that all owners of the property have received a copy of the home improvement loan contract, the financing estimate and disclosure, and the right to cancel form, and to confirm the key terms of the loan contract with the consumer.

   c. Requires that the loan contract, right to cancel form, and financing estimate and disclosure form be provided in the language that the oral confirmation was conducted in, as specified.

7. Requires a lender to provide specified information about a consumer's home improvement loan, such as required disclosures, account history, and a recording of the oral confirmation telephone calls, upon the request of the consumer.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

COMMENTS:

1. <u>What is Home Improvement Financing</u>

Traditionally, when a person wanted to make improvements on their home they would seek a Home Equity Line of Credit (HELOC) or a Home Equity Loan (HEL) from a bank. HELOC is a line of credit allowing the borrower to borrow and repay repeatedly up to a set dollar limit during a fixed period of time, while a HEL is a lump sum loan. Under these loans, a substantial amount of equity in the person's home is needed to access high loan amounts, and the home is used as collateral to secure the loan. HELOC typically has a variable interest rate that changes with the market. Both have relatively long repayment terms compared to Home improvement loans.

A home improvement loan is a type of personal loan. Unlike HELOC and HEL, home improvement loans are unsecured which causes higher interest rates. These loans also have shorter repayment terms than HELOC and HEL. Home improvement loans are offered by a broad spectrum of financers, from traditional banks to home improvement-specific lending, such as solar only. They are also available for consumers to initiate and acquire independently, much like a car loan.

All of these types of loans, like all financing, require the borrower to have good credit in order to increase the likelihood of successful repayment.

2. <u>Harms Related to Contractor Initiated Home Improvement Financing</u>

According to the Center for Responsible Lending (CRL), until 2016, homeowners shifted from leasing solar panels to owning solar panels outright as the financial sector increased access to loan products designed for these purchases.[1] Since this shift, consumers throughout the country have experienced lasting financial harms leading to a few State Attorneys General and individual homeowners filing lawsuits against bad actors in the solar financing and installation space.

In its study, CRL conducted a deep dive into consumer harms from solar issues throughout the country. Their graphic illustrating the harms is most useful in demonstrating how deficiencies, both intentional and unintentional, happen in all stages of the home improvement process. The infographic on the following page illustrates the various harms recorded at different stages of the solar lending process.

Finance companies partner with different installers, these can be for various types of repair or service. Salespeople or the contractors make offers to homeowners using in-person, door-to-door visits. If the homeowner cannot pay for the service themselves, an on-the-spot loan application can be entered through an app. The homeowner only needs to provide general information, such as their name, address, status, gross income, and place of employment. A decision is provided instantaneously.

Additionally, the terms of these loans are very appealing to homeowners because the interest rate is often very low. However, the finance company charges the contractor a dealer fee for the benefit of supplying their product, which the contractor may pass on to the homeowner in their quote. Thus the price that the homeowner receives from contractor-initiated financing may be greatly inflated resulting in a higher overall payment despite lower interest rates than if the consumer were to pay in cash or find their own financing elsewhere.

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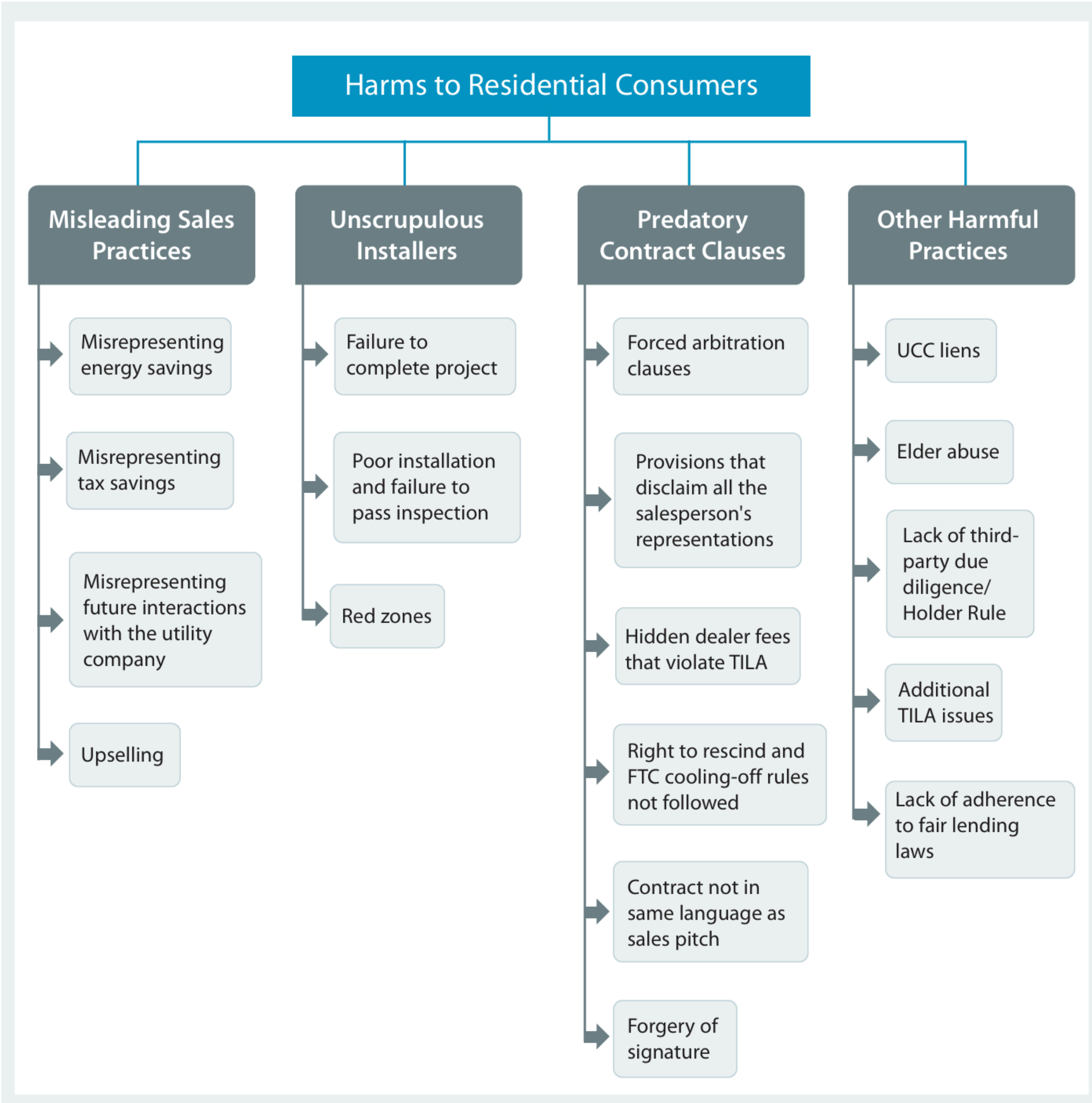
[1] Lederer, Anneliese, & Kushner, Andrew, (2024) *The Shady Side of Solar System Financing* [white paper] [crl-shady-side-solar-financing-jul2024.pdf]() at 5.

Figure 2: Four Primary Categories of Harms to Residential Consumers from Solar Lending



While this study focuses on solar financing issues, contractor-initiated home improvement across different areas have also been problematic. Issues with incomplete work, extreme delay, and failure to meet local regulatory compliance are common. Sponsors cite the lack of incentive for contractors to perform once the financing company has provided the payment. Because home improvement work can vary from window replacement to siding repair, formal proof of completion for the contractor also varies, from no requirement to applications for permits. Typically, payment is disbursed on the word of the contractor claiming to have completed the work. The lender is not obligated to inspect the work or seek permission from the consumer to pay for the services.

The sponsors of this bill are direct service providers for low-income or underrepresented communities. They have shared several examples highlighting the issues that they have encountered on a regular basis. Below is one example that is commonly seen in solar financing and the other is an example of how provisions of this bill are warranted.

Actual solar consumer experience:
A Fresno County monolingual Spanish senior was pressured into agreeing to allow for solar panels installed at his home with promises the system was free because there was a "low income program" and that he would get no more utility bills. The solar contractor did not provide copies of the solar panel agreement and never gave this consumer notice of his right to cancel the agreement. Two years after the solar panels stopped functioning and for the next four years this consumer struggled with getting the system repaired. Nonetheless, the contractor continued to demand payment for the system, which increased to over $300/month

Contractor fraud:
In another case involving an 88-year-old Latina homeowner surviving on retirement benefits, the contractor was hired to install an HVAC. The contractor pressured the homeowner to install a solar system she didn't want and signed her up for a loan that she was told would finance both the solar and the HVAC. In fact, the loan only financed the solar panels. The sponsors believe that if the lender had been required to obtain a copy of the disclosures and contract to discuss on a welcome call, the homeowner would have been able to detect and avoid the contractor's fraud. According to the sponsor's this case shows that it does not matter what the home improvement is -- this business model invites fraud.

3. Predatory Practices

In both examples above, the consumers are members of at least one vulnerable population. This is not a coincidence, it is quite normal. Door-to-door sales for home improvement loans regularly take place in neighborhoods with older homes and in monolingual communities in the middle of the day; the perfect scenario for an elderly homeowner to be present for a sales pitch. Furthermore, because these are traveling salespeople, hauling contracts, especially when financing terms have not been determined, is not practical. As such, iPads or similar electronic devices are used to determine the consumer's loan eligibility, and financing terms. Consumers are made to review and sign on the spot.

4. Strategies of the Bill

The bill uses several different approaches to address the well documented harms.

a. Extending the right to cancel window from three days to five days for most persons and five days to seven days for persons over 65 years of age. Cancellation windows allow consumers more time to cool off (hence the colloquial term "cooling off period") after exiting a high pressure sales situation. The bill does allow the consumer to waive the cancellation window for emergency repairs.

b. Delayed repayment obligations is a priority term for the author and sponsors. The bill delays the consumer's repayment obligations:

    i. For a non-solar loan: 1) After confirmation that all home improvements financed have been given final approval by all permitting agencies and are operational, or 2) the lender has completed a reasonable investigation and determined that all the financed home improvements are operations. A reasonable investigation may be conducted through a photograph or video with geolocation data and timestamping.

ii. For a solar loan: until the lender has confirmed that the utility supplying electricity to the property has been connected to the solar energy system and has granted permission to operate the solar system.

Because many of the impacted consumers of home improvement loan and solar loan predation tend to be vulnerable members of society, the author and sponsors believe that protecting the money in the consumers' pocket is vital. They argue that the consumer should not have to pay for poor workmanship, or pay while curable contract issues are being resolved and the consumer does not receive the benefit of their bargain. Industry stakeholders in the non-solar financing space, despite having ample notice, have only recently come forward to share concerns about the bill's proposed lending practice and scalability. These stakeholders argue that the requirements are too onerous and expensive for compliance.

c. Provide the consumer with advance notice of a dealer fee disclosure. This bill requires a lender, before the consumer executes a home improvement loan, to disclose to the consumer any dealer fee associated with the loan. The disclosure must be made in a physical writing and orally, as specified. Opponents of the bill argue that they cannot deliver the physical copy of the disclosure to the consumer before the loan is executed, and that they might not know whether the contractor has elected to add to the cost of the loan in order to obtain a more favorable interest rate.

d. This bill requires a lender, before the home improvement loan is executed and before the right-to-cancel window on the home improvement contract expires, to conduct a telephone, video, or digital call with the lender in which the lender explains the key terms of the loan. The bill includes a non-inclusive list of key terms, including (1) the home improvements being financed, (2) the loan term or period of time for repayment, (3) the total cost of the loan, (4) the APR, and (5) when the first payment is due. The consumer has a right to proceed with an interpreter if they speak one of the five most-common non-English languages spoken in the state; if the lender cannot provide an interpreter, and there is no person on the consumer's side to perform as an interpreter, the loan contract cannot be executed. The bill also specifies that the contractor cannot be present for the call between the lender and the consumer. The author and sponsor argue that this call is essential to ensure that the consumer is not taking on debt on the basis of unclear, glossed-over, or misrepresentations by the contractor or salesperson.

Arguments in Support

"SB 784 is a crucial step towards addressing the abuses and harm that arises from finance lenders using contractors to market their loans for home improvements, signing homeowners up electronically (often without their knowledge or informed consent), and then releasing the funds directly to the contractor without taking steps to ensure the work has been finished properly. Because of the inherent likelihood of abuse, existing law provides special protections for "home solicitation contracts", those that are negotiated outside the contractor's place of business, such as through door-to-door sales. Unfortunately, the law does not adequately address the role of lenders who finance these improvements, often leaving consumers vulnerable. Aggressive marketing tactics and door-to-door solicitation often lead homeowners to agree to projects they may not necessarily need, funded by costly unsecured consumer loans with opaque terms.

Furthermore, when projects are left incomplete or poorly executed, homeowners have limited recourse with the finance lender who is seeking repayment of the loan for substandard or incomplete work.

SB 784 presents a solution to these challenges by enacting changes that prioritize transparency and accountability on the part of the finance lender as well as the contractor. By extending the "right to rescind" timeline, requiring lenders to clearly communicate loan terms, and ensuring that the consumer is not required to start paying on the loan until the improvements are working, this legislation empowers homeowners to make informed decisions about their home improvement projects. Additionally, ensuring that consumers have adequate recourse against the lender for certain actions by the contractor promotes oversight of the contractor's solicitation and performance of the financed home improvement projects, and ensures greater accountability within the industry…"

Arguments in opposition

"...AFC is the premier trade association representing the largest financial technology (fintech) companies, including fintech lenders and their innovative bank partners. As a standards-based organization, our mission is to promote a transparent, inclusive, and customer-centric financial system by supporting responsible innovation in financial services and encouraging sound public policy. AFC members foster competition in consumer finance and pioneer products to better serve underserved consumer segments and geographies.

AFC supports appropriate regulation for emerging financial services products and advocates strongly for pragmatic legislation that enables responsible innovation without compromising consumer protection or regulatory compliance. As drafted, SB 784 poses significant risks to the very consumers the bill is intended to protect. The bill establishes requirements that increase the risks and costs associated with originating home improvement loans in the State. In turn, these requirements would limit consumers' access to the responsible and affordable credit necessary to complete their home improvements.

Specifically, AFC is concerned with the bill's provisions that require

- **Lenders provide a printed hard copy of a dealer fee disclosure form and obtain customer signature, prior to execution of the loan agreement.** This provision hinders the very accessibility and convenience of responsible fintech loans, which are usually executed entirely online. This provision will limit borrower optionality and reduce competition which will lead to fewer choices and higher costs for borrowers.

- **Lenders confirm projects have final permits, as well as oral and written consumer consent the project is "operational" prior to seeking repayment.** In short, this provision significantly increases lender risk and as a result, lenders may tighten their criteria, and limit opportunities for borrowers. 1 Sec. 1799.222. 2 Sec. 1799.221(a).

- **Lenders to conduct a consumer confirmation call and take additional actions prior to the execution of a home improvement loan, including obtaining the home improvement contract and confirming all property owners have received a copy of the loan agreement.** This provision would particularly harm home improvement loans offered online by creating an unnecessary analogue barrier that would decrease efficiency and significantly slow down access to the capital borrowers need to start making deposits and payments on the supplies for their home improvement projects in a short timeframe.

…(omitted for relevance)

- **A prohibition on consumer repayment obligations under a home improvement loan until the lender has taken specified actions.** This provision further disincentivizes lenders from taking the risk of making these loans."

According to the author:

SB 784 addresses the growing problem of deceptive lending practices in home improvement financing, where homeowners are often misled into loan agreements that leave them in a worse financial situation. With the home solar market growing by 51% in 2023 and approximately 70% of installations financed through loans, many consumers are promised savings but end up facing hidden fees and harmful terms. This bill ensures greater transparency and stronger consumer protections, reducing the risks of foreclosure, bankruptcy, and financial harm caused by misleading sales tactics and predatory lending practices.

Recommended Amendments:

In working closely with the author, sponsors and stakeholders of the bill, the committee makes the following recommendations in pursuit of addressing further concerns targeted by this bill:

1. Add language to specifically identify the type of financing obligation that is sought to be regulated in this section by adding "that finances a home improvement, excluding a solar energy system in section 1799.221(a) and remove the requirement for the consumer to confirm that improvements are operational in writing and orally. 1799.221(a)(1)

   1799.221 (a): A consumer's repayment obligations under a home improvement loan *that finances a home improvement, excluding a solar energy system,* including but not limited to, payments, fees, penalties, and interest accrual, shall not commence until either of the following has occurred:

   (1) Confirmed that all home improvements financed in whole or in part by the home improvement loan have been given final approval by all permitting agencies ~~and received from the consumer, orally and in writing,~~ that the improvements are operational.

2. Make a grammatical correction to identify the interest accrual, not just interest in section 1799.221(b)(1).

   1799.221 (b)(1): A consumer's repayment obligations, except as provided in paragraph (2), under a home improvement loan that finances a solar energy system, including, but not limited to, payments, fees, penalties, and interest *accrual*, shall not commence until the lender has confirmed that the utility supplying electricity to the property has been connected to the solar energy system and has granted permission to operate the solar energy system.

3. Change "in addition to" to "distinct from" in the required disclosure in the third paragraph of section 1799.222(b)(1) to make the statement more accurate.

"The dealer fee for this loan is $__. Your contractor may have opted to pay a dealer fee in order for your lender to extend credit to you on the terms reflected in your loan agreement. If your contractor added this amount or any portion of this amount to your home improvement contract, you will be required to pay this back. The dealer fee is ~~in addition to~~ *distinct from* the payment or payments made by the lender to the contractor for their work on this project, which, for this loan is $___.

4. Delete section 1799.223 related to lender liability to meet conditions struck by stakeholders in order to move some opponents to neutral.

5. To protect monolingual speakers, add language to require that communication under the terms of California Civil Code Section 1632 shall continue to be conducted in that language.

   ADD 1799.224 (d): If the oral confirmation required by this section was conducted primarily in a language other than English and that is specified in Section 1632 of the Civil Code, all subsequent communications, whether written or oral, shall be conducted in the manner described in Section (b)(2)(A).

6. Amend language in section 1799.225(c)(6) to delete superfluous information that may cause confusion, and add example language that was of particular concern for industry stakeholders.

   1799.225 (c)(6): Documentation of all payments made to the contractor ~~provided it is not otherwise confidential~~. This requirement does not prohibit a lender from redacting any information that is confidential or of a sensitive nature*, such as, but not limited to, account or routing numbers*.

REGISTERED SUPPORT / OPPOSITION:

Support (Verified 7/2/25)

AARP
ACCE Action
California Commission on Aging
California Elder Justice Coalition (CEJC)
California Environmental Justice Alliance Action, a Project of Tides Advocacy
California Low-income Consumer Coalition
Cameo Network
Center for Responsible Lending
Consumer Federation of California
Consumer Reports
Contra Costa Senior Legal Services
Contractors State License Board
Elder Law & Advocacy
Housing and Economic Rights Advocates (HERA)
Legal Services for Seniors

National Consumer Law Center
National Housing Law Project
Public Counsel
Public Law Center
Rise Economy
SEIU California
The Greenlining Institute
UDW/AFSCME Local 3930

Opposition (Verified 7/2/25)

American Fintech Council
Tesla Inc.

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