

Date of Hearing: January 12, 2026

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

AB 501 (Papan) – As Amended January 5, 2026

SUBJECT: Lawsuits, liens, and other encumbrances

SUMMARY: False UCC liens have been used to harass and dox businesses and public officials. For decades, but more frequently today. This bill will modernize code sections addressing the foreseen problem of abuse of lien recordings that are 10 years old and 27 years old by 1) requiring notice to the impacted person, 2) increasing penalties for proven harassment, and 3) fee shifting for court proceedings necessary to pursue harassment claims.

EXISTING LAW:

1. Prohibits a person from filing, recording, or directing another to file or record a lawsuit, lien, or other encumbrance, including a notice of lis pendens, against another person or entity knowing it is false, with the intent to harass the person or entity or to influence or hinder the person in discharging his or her official duties if the person is a public officer or employee. Code of Civil Procedure Section 765.010(b).
2. Requires a court to issue an order striking and releasing a lien or other encumbrance if it determines that the lien or other encumbrance is in violation of Section 765.010[(b)]. Code of Civil Procedure Section 765.030.
 - a. Petitioner to be paid by the lien or encumbrance claimant. *Id.*
 - b. If the court determines that the lien or other encumbrance is valid, the court shall issue an order so stating and may award costs and reasonable attorney's fees to the encumbrance claimant to be paid by the petitioner. *Id.*
3. Requires a penalty of up to \$5,000 to be paid by the lien or encumbrance claimant who records or files, or directs another to record or file, a lawsuit, lien, or other encumbrance in violation of Section 765.010. Code of Civil Procedure Section 765.040.
4. Designates the Secretary of State for filing of financing statements to perfect a security interest in collateral, including fixtures, of a transmitting utility. Commercial Code Section 9501(b).
5. Requires the following conditions for the financing statement of certain secured interest:
 - a. The name of the debtor.
 - b. The name of the secured party or a representative of the secured party.
 - c. The collateral covered by the financing statement. Commercial Code Section 9502.
6. Holds a UCC filing statement valid for five years after the date of filing. Commercial Code Section 9515(a).

7. Permits a person to file in the filing office an information statement with respect to a record indexed there under the person's name if the person believes that the record is inaccurate or was wrongfully filed. Commercial Code Section 9518(a).
 - a. The information statement must do several things, notably, indicate that it is an information state, provide a basis for the person's belief that the record is inaccurate and indicate the manner in which the person believes the record should be amended to cure any inaccuracy or provide the basis for the person's belief that the record was wrongfully filed. Commercial Code Section 9518(b).
8. Permits a court to order or restrain collection, enforcement, or disposition of collateral on appropriate terms and conditions if it is established that a secured party is not proceeding in accordance with the division. Commercial Code Section 9625(a).
9. In some cases, permits the debtor to recover damages in the amount of any loss caused by a failure to comply with this division. Loss caused by a failure to comply may include loss resulting from the debtor's inability to obtain, or increased costs of, alternative financing. Commercial Code Section 9625(b).
10. In addition to any damages the debtor, consumer obligor, or person named as a debtor in a filed record, as applicable, may recover five hundred dollars (\$500) for each person that fails to comply under certain defined sections. Commercial Code Section 9625(e).
11. Establishes that commercial credit reports are separate and distinct from consumer credit reports and are not subject to the Consumer Credit Reporting Agencies Act. Civil Code Section 1785.41.
12. Permits the subject of a commercial credit report, within 30 days of receiving its report, to file a statement of dispute limited to 50 words explaining the nature of the disagreement. Within 30 days of receiving the dispute, the agency shall either delete or include an indication that the subject's statement of dispute will be provided upon request. Civil Code Section 1785.43(c).

FISCAL EFFECT: None.

COMMENTS:

Statement from the Author

Assembly Bill 501 is a common sense, stepped approach to fix the recurring and frivolous weaponization of the UCC-1 filing process. Though filing a lien should remain an accessible tool for businesses and individuals seeking to complete a commercial transaction, bad actors are currently using the process to smear the name and credit of public officials and others. Unsuspecting victims are being thrust into debt with no way of protecting themselves; in my own district, I've received complaints from officials who have been victimized by such a scheme. This bill would take a three-pronged approach to hold fraudulent lien filers accountable and ensure those targeted can take swift action. The bill requires the Secretary of State's office to immediately notify all individuals when named on a UCC-1 filing, giving them plenty of time to pursue a corrective course of action. The bill also moves court fees to the back end of litigation to ease the process of debtors going after the claimants and requires the guilty party to pay all court fees. The bill additionally raises the penalty for those found guilty of filing a fraudulent

lien. Taken together, these reforms create a targeted, practical fix to the vulnerabilities in the current UCC-1 filing system and help protect Californians from misuse.

Background

A lien is a legal claim used to assert a lender's right to collateral that is used to secure a debt in the event that the borrower fails to pay. Some commonly encountered liens are: a mechanic's lien (for laborers on the property they worked on), car lien (the right the lender has to the car's title until the loan is fully repaid), and for small businesses, a merchant cash advance lien (the finance company's claim against the business's receivables or assets to secure full repayment of the financing). Liens can arise contractually and statutorily.

A UCC lien is a reference to the Uniform Commercial Code (UCC); the federal code section under which liens for commercial transactions involving property and equipment are regulated. In order to perfect a lien (complete all necessary legal steps to make the lien binding and establish priority to the collateral over any subsequent lienholders), in the interest of due process, the lienholder must file a financing statement, known as the UCC-1 form, on a public record, such as the Secretary of State or county recorder¹ to create public notice.

Commercial Credit Reporting v. Consumer Credit Reporting

For businesses, a recorded UCC lien is reported on the business' credit report by a data furnisher. Data furnishers are multitudinous; creditors, landlords, banks, lienholders, and student loans providers are examples of different data furnishers. In addition to providing its own data about the subject of the report, some data furnishers scrape public records for information that gets reported, albeit, under strict requirements of the Fair Credit Reporting Act (FCRA) if applicable.

The commercial credit report, much like a consumer credit report, is used to determine the creditworthiness of a business or how leveraged a business may already be for financing. However, unlike consumer credit reports, business credit reports do not enjoy the same safeguards and dispute requirements as its consumer counterpart. When a lien is recorded on a business credit report, it communicates to users of that report that the business does not pay its debts, or that it is overleveraged. For example, if the pizza oven of the pizza business already has a lien on it, were it to be used as collateral, the next person in line (a subordinate lienholder) is unlikely to recoup from any sale of that collateral. This makes the business look like a risky borrower to the lender, which can result in higher interest rates or complete denial for financing.

Two key abuse impact points raised by the author are the low barrier to recording liens and the low stake repercussions for filing false claims.

- In pure business to business transactions, the federal law, FCRA, does not apply, however if personal assets are used as collateral, FCRA does apply. Unlike consumer credit reporting which has clear and conspicuous rules for accuracy and completeness for data furnishers², the California Commercial Credit Report statute is silent as to any

¹ The office in which the claimant files is determined based on the property type and the corresponding statute.

² Federal Fair Credit Reporting Act (FCRA) 15 U.S. Code Section 1681s-2- Responsibilities of furnishers of information to consumer reporting agencies. And Title 16 Code of Federal Regulations Part 660.3 Reasonable policies and procedures concerning the accuracy and integrity of furnished information.

standards for data furnisher, even going so far as to permit credit reporting agencies to protect the identity of the sources of information used in the commercial credit report.³

- Under the California Commercial Credit Report statute, no financial recourse is available for proven injuries.

Impact of UCC Liens on Credit Reports

A practical disparity between the California Commercial Credit Report statute and FCRA is the dispute process. Because accuracy and completeness are foundational cornerstones of FCRA, the dispute process requires removal of disputed information if the reporting agency's investigation determines the information to be inaccurate, incomplete or cannot be verified.⁴

California's Commercial Credit Reporting statute is more limiting on the business and permissive for the credit reporting bureau. First, the statute limits the time the business may dispute information to 30 days from receiving the report. Second, the statute limits the business to a 50-word summary statement of dispute to explain the inaccuracy. And third, the statute only requires the agency to either delete or include an indication that the business' statement of dispute will be provided upon request. No investigation as to the validity of the information is required. And yet, a commercial credit report is used to determine a business' creditworthiness on the presumption of accuracy.

It is a well-known statistic that 99.9% of U.S. businesses are small businesses which employ 45.9% of the country's employees.⁵ Unsurprisingly, small businesses rarely use private investors or venture capital to fund their work, instead small businesses seek financing. Access to credit is essential for business, but access to credit with terms that are reasonable is the difference between succeeding and failing. Thus, even though commercial credit reports and the information provided on them are used the same way that consumer credit reports are used, the lack of parity in the requirements for trustworthiness and correction makes the consequences of false reporting deeply dire for businesses.

REGISTERED SUPPORT / OPPOSITION:

Support

None.

Verified 1/8/2026

Opposition

None.

Verified 1/8/2026

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³ Civil Code Section 1785.43(a)

⁴ 15 U.S. Code Section 1681i(5) Treatment of inaccurate or unverifiable information.

⁵ U.S. Small Business Administration Office of Advocacy 2025 Small Business Profile:
https://advocacy.sba.gov/wp-content/uploads/2025/06/United_States_2025-State-Profile.pdf