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AB-866 Student loan servicing. (2025-2026)

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CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL

NO. 866

Introduced by Assembly Member Ortega

February 19, 2025

An act to add Section 28180.5 to the Financial Code, relating to business practices.

LEGISLATIVE COUNSEL'S DIGEST

AB 866, as introduced, Ortega. Student loan servicing.

Existing law, the Student Loan Servicing Act, prohibits a person from engaging in the business of servicing a student loan in California without first obtaining a license. Existing law commits the administration of these provisions to the Commissioner of Financial Protection and Innovation and grants the commissioner various powers in this regard, including the authority to conduct investigations of applicants and licensees.

Existing law, the Unfair Competition Law (UCL), makes various practices unlawful and makes a person who engages, has engaged, or proposes to engage in unfair competition liable for a civil penalty, as specified. Existing law authorizes actions for relief prosecuted under the UCL to be brought by certain public attorneys and requires the penalty collected from those actions to be paid to the treasurer of the county or city in which the judgment is entered, as specified.

This bill would specify that a student loan servicer under the Student Loan Servicing Act, is subject to the UCL.

Existing law, the Rosenthal Fair Debt Collection Practices Act, regulates the collection of consumer debts by debt collectors, as defined. Under existing law, a debt collector who violates the act is liable to a debtor for actual damages resulting from the violation, and is subject to additional civil penalties for any willful or knowing violation of the act, and other specified remedies. Existing law also makes certain violations of the act punishable as a crime.

The bill would specify that a student loan is a debt that is subject to the Rosenthal Fair Debt Collection Practices Act. The bill would further specify that a transaction giving rise to a student loan is a consumer credit transaction for purposes of the Rosenthal Fair Debt Collection Practices Act. By expanding the scope of an existing crime, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 28180.5 is added to the Financial Code, to read:

28180.5. (a) A student loan servicer is a person for purposes of the Unfair Competition Law (Chapter 5 (commencing with Section 17200) of Part 2 of Division 7 of the Business and Professions Code).

(b) A student loan is a debt for purposes of the Rosenthal Fair Debt Collection Practices Act (Title 1.6C (commencing with Section 1788) of Part 4 of Division 3 of the Civil Code).

(c) A transaction giving rise to a student loan is a consumer credit transaction for purposes of the Rosenthal Fair Debt Collection Practices Act (Title 1.6C (commencing with Section 1788) of Part 4 of Division 3 of the Civil Code).

SEC. 2. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.