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AB-1166 Fair Debt Settlement Practices Act. (2025-2026)

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AMENDED IN SENATE JULY 07, 2025

CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL

NO. 1166

Introduced by Assembly Member Valencia

February 21, 2025

An act to amend Sections 1788.301, 1788.302, 1788.304, and 1788.305 of the Civil Code, relating to ~~consumer~~
commercial debt.

LEGISLATIVE COUNSEL'S DIGEST

AB 1166, as amended, Valencia. Fair Debt Settlement Practices Act.

Existing law, the Fair Debt Settlement Practices Act, prohibits a debt settlement provider from engaging in false, deceptive, or misleading acts or practices, as specified, when providing debt settlement services. Existing law requires a debt settlement provider to provide a consumer with certain disclosures along with an unsigned copy of the proposed written contract between the debt settlement provider and the consumer and prohibits certain unfair, abusive, or deceptive practices in connection with payment processor activities. Existing law authorizes a consumer to terminate a contract for debt settlement services at any time without a fee or penalty of any sort by notifying the debt settlement provider, at which time the debt settlement provider is required to, among other things, provide, within 3 business days, a detailed accounting of any amounts received or expected to be received by the debt settlement provider from the consumer's settlement account after the debt settlement provider received effective notice of request for cancellation. Existing law authorizes a consumer to bring a civil action for violation of these provisions.

This bill would expand the protections for consumers described above to include commercial ~~financing recipients~~, *debtors*, as defined, and make other, nonsubstantive and related changes.

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

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

SECTION 1. Section 1788.301 of the Civil Code is amended to read:

1788.301. For purposes of this title:

(a) “Commercial-~~financing~~” *loan*” means ~~an accounts receivable purchase transaction, including factoring, asset-based lending transaction, commercial loan, commercial open-end credit plan, or lease financing transaction intended by the recipient~~ a loan of a principal amount of five thousand dollars (\$5,000) or more, or any loan under an open-end credit program, whether secured by either real or personal property, or both, or unsecured, the proceeds of which are intended by the borrower for use primarily for other than personal, family, or household purposes.

For purposes of determining whether a loan is a commercial loan, the lender may rely on any written statement of intended purposes signed by the borrower. The statement may be a separate statement signed by the borrower or may be contained in a loan application or other document signed by the borrower. The lender shall not be required to ascertain that the proceeds of the loan are used in accordance with the statement of intended purposes.

(b) “Commercial-~~financing-recipient~~” *debtor*” means a person who ~~receives commercial financing in~~ satisfies both of the following conditions:

(1) The person owes commercial debt in an amount equal to or less than five hundred thousand dollars (\$500,000) and ~~who~~ is responsible for repaying that debt.

(2) The person is not a business entity organized for profit with annual gross receipts of more than the annual gross receipt level established for a “small business” as biennially adjusted by the Department of General Services in accordance with Section 14837 of the Government Code.

(c) “Debt settlement provider” means a person who, for compensation and on behalf of a consumer or commercial-~~financing-recipient~~ *debtor*, provides debt settlement services.

(d) “Debt settlement services” means any of the following:

(1) Providing advice, or offering to act or acting as an intermediary, including, but not limited to, offering debt negotiation, debt reduction, or debt relief services between a consumer and one or more of the consumer’s creditors or between a commercial ~~financing-recipient~~ *debtor* and one or more of the commercial-~~financing-recipient’s~~ *debtor’s* creditors, if the primary purpose of that advice or action is to obtain a settlement for less than the full amount of the debt.

(2) Advising, encouraging, or counseling a consumer or commercial-~~financing-recipient~~ *debtor* to accumulate funds in an account for future payment of a reduced amount of debt to one or more of the consumer’s or commercial-~~financing-recipient’s~~ *debtor’s* creditors.

(e) “Settlement account” means a depository account established and used for the purpose of holding funds of a consumer or commercial-~~financing-recipient~~ *debtor* to be distributed to a creditor in the event of a settlement of a consumer’s or commercial ~~financing-recipient’s~~ *debtor’s* debt with the creditor.

(f) “Consumer” means a person who is allegedly legally responsible for a *consumer* debt.

(g) “Person” means a natural person or entity, whether a corporation, partnership, association, trust, limited liability company, cooperative, or other organization.

(h) “Creditor” means the person who originated the debt or is assigned, or has purchased for collection, a debt for which a consumer or commercial-~~financing-recipient~~ *debtor* is allegedly legally responsible.

(i) “Commercial debt” means money, whether in principal, interest, fees, or other charges, that is due or owing or alleged to be due relating to one or more commercial loans.

~~(j) “Debt”~~

(j) “Consumer debt” means money, whether in principal, interest, fees, or other charges, which is due or owing or alleged to be due or owing from a consumer or commercial financing recipient to another person: natural person to another person and incurred primarily for personal, family, or household purposes.

~~(k)~~

(k) “Payment processor” means a person who provides payment processing services.

~~(l)~~

*(l) “Payment processing services” means accepting, maintaining, holding, or distributing funds, or facilitating the acceptance, maintenance, holding, or distribution of funds, on behalf of a consumer or commercial-~~financing-recipient~~ *debtor* for the purpose of*

facilitating debt settlement services.

SEC. 2. Section 1788.302 of the Civil Code is amended to read:

1788.302. (a) A debt settlement provider shall not engage in false, deceptive, or misleading acts or practices when providing debt settlement services. Without limiting the general application of the foregoing, an act or practice is false, deceptive, or misleading, in connection with providing debt settlement services, if the act or practice consists of any of the following:

- (1) Making or permitting another entity to publicly make on behalf of the debt settlement provider, a statement or representation that is false, deceptive, or misleading.
- (2) Posting directly, or indirectly causing to be posted, an online review or ranking on an internet website if the debt settlement provider, or its agent, provided anything of value in exchange for favorable treatment in that review or ranking.
- (3) Omitting any material information.

(b) A debt settlement provider shall provide to the consumer or commercial ~~financing recipient~~ *debtor* the following disclosures along with an unsigned copy of the written contract proposed to be entered into between the debt settlement provider and the consumer or commercial ~~financing recipient no less than three calendar days prior to the execution of that contract by the consumer or commercial financing recipient.~~ *debtor*. A fully executed copy of the contract shall be delivered to the consumer or commercial ~~financing recipient~~ *debtor* by the debt settlement provider immediately after the debt settlement provider receives the contract.

(1) The contract shall be preceded by a disclosure that contains all of the following information in conspicuous boldface type that is larger than the typeface provided in the contract typeface:

(A) There is no guarantee that any particular debt or all of the consumer's or commercial ~~financing recipient's~~ *debtor's* enrolled debts will be reduced, eliminated, or otherwise settled.

(B) The deposits made pursuant to the contract will not be distributed to the creditor until a settlement is obtained. This may take months to achieve.

(C) If the consumer or commercial ~~financing recipient~~ *debtor* stops paying any creditor, any of the following may occur:

(i) The creditors may still try to collect.

(ii) The creditors may sue.

(iii) If a creditor obtains a judgment against the consumer or commercial ~~financing recipient~~ *debtor*, the creditor may garnish the consumer's wages or levy the consumer's or commercial ~~financing recipient's~~ *debtor's* bank account or accounts, or both garnish the consumer's wages and levy the consumer's bank account or accounts.

(iv) The consumer's or commercial ~~financing recipient's~~ *debtor's* credit score or credit rating may be negatively impacted.

(D) Failing to pay debts on time may adversely affect the consumer's or commercial ~~financing recipient's~~ *debtor's* credit rating or credit scores.

(E) Specific results cannot be predicted or guaranteed, and the debt settlement provider cannot require a creditor to negotiate or settle a debt.

(F) A consumer or commercial ~~financing recipient~~ *debtor* may cancel the debt settlement contract at any time without any penalty.

(G) Debt settlement services may not be suitable for all individuals.

(H) Bankruptcy may provide an alternative to debt settlement.

(I) Canceled debt may be counted as income under federal tax law, and the consumer or commercial ~~financing recipient~~ *debtor* may have to pay income taxes on the amount of forgiven or reduced debt.

(J) Many sources of income may be protected from debt collection. Common sources of protected income include disability insurance benefits, life insurance benefits, military benefits, pension plans, retirement benefits, public assistance, social security benefits, supplemental security income (SSI), unemployment benefits, veterans benefits, workers compensation, and student aid. See form EJ-155 from the Judicial Council for a complete list.

(K) The number of months estimated to enter into settlement agreements that completely resolve all enrolled debts.

(L) All conditions that the consumer or commercial ~~financing recipient~~ *debtor* must satisfy before the debt settlement provider will make a settlement offer to a creditor.

(M) Whether the debt settlement provider pays or receives referral fees.

(2) Each contract between a consumer or commercial ~~financing recipient~~ *debtor* and debt settlement provider:

(A) Shall list each debt to be serviced, including, for each debt, the name of the creditor and the total amount of the debt. The total amount of the debt may be based on either a billing statement for the debt or information in the consumer's consumer report, as that term is defined under the federal Fair Credit Reporting Act (15 U.S.C. Sec. 1681 et seq.). The billing statement or consumer report must have been issued within 30 calendar days of the date of the contract.

(B) Shall provide the estimated period of time it will take the consumer or commercial ~~financing recipient~~ *debtor* to accumulate in a settlement account the amount of money estimated to be required to settle all debts.

(C) Shall provide the *minimum* amount of time necessary to achieve the represented results.

(D) Shall provide, in terms easily understood by the least sophisticated consumer or commercial ~~financing recipient~~, *debtor*, the method that the debt settlement provider will use to calculate the charges and fees for debt settlement services.

(E) Shall provide the name and mailing address of the debt settlement provider and of the consumer or commercial ~~financing recipient~~, *debtor*.

(F) Shall provide a telephone number at which the consumer or commercial ~~financing recipient~~ *debtor* may speak, during normal business hours, with a live representative of the debt settlement provider during normal business hours who is able to access information about the consumer's or commercial ~~financing recipient's~~ *debtor's* account.

(G) Shall be provided to the consumer or commercial ~~financing recipient~~ *debtor* in English and in the language in which it was negotiated or in which the debt settlement services were offered, if that language is one of the languages set forth in Section 1632.

(H) Shall not require a compulsory agreement with any other party. A debt settlement provider may require that the consumer or commercial ~~financing recipient~~ *debtor* obtain a dedicated settlement account and provide a list of preferred vendors, however a payment processor who receives compensation from the consumer or commercial ~~financing recipient~~ *debtor* for payment processing services must supply its own contract to the consumer or commercial ~~financing recipient~~ *debtor* for engagement.

(I) Shall not be entered into by a consumer or commercial ~~financing recipient~~ *debtor* who is not already allegedly legally responsible for all the debt that will be enrolled in the debt settlement services. In the event multiple consumers or commercial ~~financing recipients~~ *debtors* engage in a single contract for debt settlement services, if any consumer or commercial ~~financing recipient~~ *debtor* is not proficient in English and speaks a language set forth in Section 1632, a translated copy of the disclosures and contract shall be provided to the consumer or commercial ~~financing recipient~~ *debtor* in that language and in a manner that complies with this subdivision.

(3) (A) A debt settlement provider shall provide the disclosures and unsigned copy of the written contract required by this subdivision to the consumer no less than three calendar days before the execution of the contract by the consumer.

~~(3)~~

(B) A debt settlement provider shall not communicate with any of a consumer's ~~or commercial financing recipient's~~ creditors until five calendar days after full execution of a contract for debt settlement services.

(C) This paragraph does not apply to commercial debt.

(c) A debt settlement provider and a payment processor shall not engage in unfair, abusive, or deceptive acts or practices when providing debt settlement services or payment processing services. Without limiting the general application of the foregoing, in connection with providing debt settlement services and payment processing services, an act or practice is unfair, abusive, or deceptive if the act or practice consists of any of the following:

(1) For a debt settlement provider and payment processor, offering to lend money or extend credit to the consumer or commercial ~~financing recipient~~, *debtor*, or purchase an enrolled debt.

(2) For a debt settlement provider *and in relation to a consumer debt*, requesting or receiving payment of any fee or consideration for debt settlement services, unless and until all of the following occur:

(A) The debt settlement provider has renegotiated, settled, reduced, or otherwise altered the terms of at least one debt pursuant to a settlement agreement approved and executed by the ~~consumer or commercial financing recipient~~ *consumer*.

(B) The consumer has made at least one payment pursuant to that settlement agreement between the consumer ~~or commercial financing recipient~~ and the creditor.

(C) To the extent that *consumer* debts enrolled in a debt settlement service are negotiated, settled, or modified individually, the fee or consideration must either:

(i) Bear the same proportional relationship to the total fee for renegotiating, settling, reducing, or altering the terms of the entire debt balance as the individual debt amount bears to the entire debt amount. The individual debt amount and the entire debt amount are those owed at the time the debt was enrolled in the service.

(ii) Represent a percentage of the amount saved as a result of the renegotiation, settlement, reduction, or alteration. The percentage charged cannot change from one individual debt to another. The amount saved is the difference between the amount owed at the time the debt was enrolled in the service and the amount agreed *upon* pursuant to the settlement agreement between the consumer ~~or commercial financing recipient~~ and the creditor to satisfy the debt.

(3) For a debt settlement provider and in relation to a commercial debt, collecting or retaining fees in excess of the difference between the amount owed at the time the commercial debt was enrolled in the service and the amount agreed upon pursuant to any settlement agreement between the commercial debt and the creditor to satisfy the commercial debt.

~~(3)~~

(4) For a payment processor, facilitating the distribution of payment of any fee or consideration for debt settlement services before the requirements set forth in paragraph (2) have been met.

~~(4)~~

(5) For a payment processor, failing to distribute a statement of accounting to a consumer or commercial ~~financing recipient~~ debtor at least once ~~a~~ per month while the consumer or commercial ~~financing recipient~~ debtor is engaged with the payment processor, as well as on or before the fifth business day after a consumer or commercial ~~financing recipient~~ debtor requests a statement of accounting.

(A) When an accounting is available to the consumer or commercial ~~financing recipient~~ debtor online, the payment processor must make prominent and ongoing the ability for a consumer or commercial ~~financing recipient~~ debtor to opt in to a paper accounting to be mailed to the consumer or commercial ~~financing recipient~~ debtor under the terms of this section.

(B) The statement of accounting must contain the following information to the extent applicable:

(i) A list of deposits made into, and withdrawals from, the consumer's or commercial ~~financing recipient's~~ debtor's settlement account during the previous month.

(ii) The fees that the debt settlement provider has billed and collected in connection with each of the debts settled during the previous month.

(iii) The fees that the payment processor has billed and collected in connection with payment processing services during the previous month.

(iv) The amount of money that the consumer or commercial ~~financing recipient~~ debtor holds in the consumer's or commercial ~~financing recipient's~~ debtor's settlement account.

(C) Within five business days of a consumer's or commercial ~~financing recipient's~~ debtor's request, a payment processor shall provide a consolidated statement of accounting containing all of the following:

(i) A list of deposits made into, and withdrawals from, the consumer's or commercial ~~financing recipient's~~ debtor's settlement account starting from the outset of the contract.

(ii) A list of fees that the debt settlement provider has billed and collected in connection with each of the debts settled starting from the outset of the contract.

(iii) A list of fees that the payment processor has billed and collected in connection with payment processing services starting from the outset of the contract.

(iv) The amount of money that the consumer holds in the consumer's settlement account or the amount of money that the commercial ~~financing recipient~~ *debtor* holds in the commercial ~~financing recipient's~~ *debtor's* settlement account.

(5)

(6) For a debt settlement provider, failing to distribute a statement of accounting to a consumer or commercial ~~financing recipient~~ *debtor* at least once ~~a~~ *per* month while the contract for debt settlement services is in effect, as well as on or before the fifth business day after a consumer or commercial ~~financing recipient~~ *debtor* requests a statement of accounting.

(A) When an accounting is available to the consumer or commercial ~~financing recipient~~ *debtor* online, the debt settlement provider must make prominent and ongoing the ability for a consumer or commercial ~~financing recipient~~ *debtor* to opt in to a paper accounting to be mailed to the consumer or commercial ~~financing recipient~~ *debtor* under the terms of this section.

(B) The statement of accounting must contain the following information to the extent applicable:

(i) The amounts, dates, and creditors associated with each settlement obtained by the debt settlement provider on behalf of the consumer or commercial ~~financing recipient~~ *debtor*.

(ii) The fees that the debt settlement provider has billed and collected in connection with each of the debts settled.

(iii) With respect to any debt settled by the debt settlement provider on behalf of the consumer or commercial ~~financing recipient~~ *debtor*, all of the following information:

(I) The total amount of money that the consumer or commercial ~~financing recipient~~ *debtor* paid or will pay to the creditor to settle the debt.

(II) The amount of the debt at the time the debt settlement provider and the consumer or commercial ~~financing recipient~~ *debtor* entered into the contract.

(III) The amount of the debt at the time the creditor agreed to settle the debt.

(IV) The amount of compensation that the debt settlement provider received, or may receive, to settle the debt.

(d) (1) A consumer or commercial ~~financing recipient~~ *debtor* may terminate a contract for debt settlement services at any time without a fee or penalty of any sort by notifying the debt settlement provider in writing, electronically, or orally.

(2) The notice described in paragraph (1) shall be deemed effective immediately upon being sent if made electronically, including via text message or orally. When the notice is sent via certified mail, notice shall be deemed effective upon receipt. When written notice is sent via noncertified mail, notice shall be deemed effective seven calendar days from the date of mailing.

(3) Upon effective notice of request for cancellation of the contract, the debt settlement provider shall do all of the following:

(A) Immediately cancel the contract.

(B) Immediately notify the payment processor that the consumer or commercial ~~financing recipient~~ *debtor* has canceled the debt settlement services and transmit to the payment processor the consumer's or commercial ~~financing recipient's~~ *debtor's* instruction to close the settlement account and deliver the balance in the settlement account to the consumer or commercial ~~financing recipient~~ *debtor*.

(C) Provide, within three business days, a detailed accounting of any amounts received or expected to be received by the debt settlement provider from the consumer's or commercial ~~financing recipient's~~ *debtor's* settlement account after the debt settlement provider received effective notice of request for cancellation. The detailed accounting shall include an explanation of how the amounts were calculated in accordance with the requirements of paragraph (2) of subdivision (c).

(D) Provide within three business days copies of all documents, notices, or other communications it has received from any creditor on behalf of the consumer or commercial ~~financing recipient~~ *debtor*.

(4) The items in subparagraphs (C) and (D) of paragraph (3) shall be sent by United States mail or by electronic means reasonably calculated to reach the consumer.

(5) Upon receipt of notice of cancellation of the contract from the consumer, commercial ~~financing recipient~~ *debtor*, or debt settlement provider, the payment processor shall stop accumulating service fees, close the settlement account, and deliver to the consumer or commercial ~~financing recipient~~ *debtor* the balance in the settlement account within seven days. The payment

processor shall provide, within 10 business days, a detailed accounting of the amount refunded and any amounts sent to the debt settlement provider after or upon the payment processor receiving notice of the cancellation of the contract.

(e) A debt settlement provider shall immediately forward the following notices to the consumer or commercial ~~financing recipient~~, ~~debtor~~, either by United States mail or by electronic means reasonably calculated to reach the consumer or commercial ~~financing recipient~~: ~~debtor~~:

(1) Any notice of a lawsuit on an enrolled debt from any person other than the consumer or commercial ~~financing recipient~~: ~~debtor~~.

(2) Any settlement agreement that a debt settlement provider has negotiated on the consumer's or commercial ~~financing recipient's~~ ~~debtor's~~ behalf.

SEC. 3. Section 1788.304 of the Civil Code is amended to read:

1788.304. This title does not apply to any of the following:

(a) Any person, or the person's authorized agent, doing business under license and authority of the Commissioner of Financial Protection and Innovation under Divisions 1.1 (commencing with Section 1000), 2 (commencing with Section 5000), and 5 (commencing with Section 14000) of the Financial Code or under any law of this state or of the United States relating to banks or credit unions.

(b) Any nonprofit business organization that is certified as tax-exempt by the Internal Revenue Service and that does not receive compensation from the consumer for providing debt settlement services.

(c) Attorneys and law firms that meet all of the following criteria:

(1) The attorney or law firm does not charge for services regulated by this title.

(2) The fees and disbursements are not charges or costs shared, directly or indirectly, with a debt settlement provider.

(3) Any of the following is true:

(A) The attorney or law firm is retained by a consumer for the purpose of legal representation in consumer debt litigation or by a commercial ~~financing recipient~~ ~~debtor~~ for the purpose of legal representation in debt litigation.

(B) The attorney or law firm provides debt settlement services pursuant to representation by retainer for a debt collection matter that does not involve consumer debt or debt incurred by a commercial ~~financing recipient~~: ~~debtor~~.

(C) The attorney or law firm is retained by the consumer primarily for purposes other than the settlement of consumer debt or by the commercial ~~financing recipient~~ ~~debtor~~ for purposes other than the settlement of debt incurred by the commercial ~~financing recipient~~: ~~debtor~~.

(d) A merchant-owned credit or creditors association, or a member-owned, member-controlled, or member-directed association whose principal function is that of servicing the community as a reporting agency.

SEC. 4. Section 1788.305 of the Civil Code is amended to read:

1788.305. (a) A debt settlement provider and a payment processor shall comply with this title.

(b) A consumer or commercial ~~financing recipient~~ ~~debtor~~ may bring a cause of action against a debt settlement provider and a payment processor for violation of any provision of this title in order to recover or obtain any of the following:

(1) Damages in an amount equal to the sum of the following:

(A) Statutory damages in an amount to be determined by the court of no less than one thousand dollars (\$1,000) and no more than five thousand dollars (\$5,000) per violation of this title.

(B) Any actual damages sustained by the consumer or commercial ~~financing recipient~~ ~~debtor~~ as a result of the violation.

(2) Injunctive relief.

(3) Any other relief that the court deems proper.

(c) (1) In the case of any successful cause of action under this section, the court shall award costs of the action, together with reasonable attorney's fees as determined by the court.

(2) Reasonable attorney's fees may be awarded to a prevailing debt settlement provider and a prevailing payment processor upon a finding by the court that the consumer's or commercial ~~financing recipient's~~ *debtor's* prosecution of the cause of action was not in good faith.

(d) A debt settlement provider or a prevailing payment processor shall have no civil liability for damages under this section if the debt settlement provider or a prevailing payment processor shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error, and occurred notwithstanding the maintenance of procedures reasonably adopted to avoid any error.

(e) A cause of action brought under this section shall be brought within four years of the latter of the following dates:

(1) The last payment by or on behalf of the consumer or commercial ~~financing recipient~~ *debtor*.

(2) The date on which the consumer discovered or reasonably should have discovered the facts giving rise to the consumer's or commercial ~~financing recipient's~~ *debtor's* claim.