

DEPARTMENT OF BUSINESS OVERSIGHT
1515 K STREET, SUITE 200
SACRAMENTO, CA 95814

NOTICE OF MODIFICATIONS TO TEXT OF
PROPOSED REGULATION

Pursuant to the requirements of Government Code section 11346.8, subdivision (c), and Section 44 of Title 1 of the California Code of Regulations, the Department of Business Oversight is providing notice of proposed changes to Sections 1601, 1603 and 1608 in Article 14, of Subchapter 6 of Title 10, published in the California Regulatory Notice Register 2014, No. 2-Z. The proposed regulation as originally noticed to the public, would adopt rules to implement the Pilot Program for Increased Access to Responsible Small Dollar Loans, as enacted by Senate Bill 318 (Chapter 467, Statutes of 2013). The changes proposed in this notice are in response to comments received from Senator Jerry Hill, the author of Senate Bill 318, a licensee directly affected by the proposed regulation and an interested party. Additions to the text are shown by double underlining and deletions are shown by double strike-out.

On July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight. The Department of Business Oversight (Department) has all of the powers, authority, enforcement, jurisdiction, laws and regulations that were under the former Department of Corporations and former Department of Financial Institutions.

The Department licenses and regulates businesses engaged in financial transactions that were under the former Department of Corporations, such as mortgage loan originators, finance lenders, securities broker-dealers, investment advisers and securities depositories.

If you have any comments regarding the proposed changes, the Department will accept written comments between April 3, 2014 and April 18, 2014. All written comments must be submitted to the Department no later than 5:00 p.m. on April 18, 2014, and addressed to:

Karen Fong, Rulemaking Coordinator
Department of Business Oversight
Legal Division - Policy Unit
1515 K Street, Suite 200
Sacramento, California 95814
(916) 322-3553
Regulations@dbo.ca.gov

All written comment received by April 18, 2014, which pertain to the indicated changes will be reviewed and responded to by the Department staff as part of the compilation of the rulemaking file. Please limit your comments to the modifications to the text. If the final day for the acceptance of comments is a Saturday, Sunday or state holiday, the comment period will close at 5 p.m. on the next business day.

REASONS FOR CHANGES

The Department is proposing material changes to Sections 1601 (branch manager), 1603 (finder registration form) and 1608 (approval of credit education programs and seminars by the Commissioner). The material changes would:

1. Amend Section 1601, subdivision (d), to permit a licensee to appoint a branch manager to manage multiple branch locations at which pilot program loans and non-pilot program loans are offered. The change was made in response to a comment from Senator Jerry Hill, author of Senate Bill 318. Senator Hill stated that the proposed rule is contrary to his intent in drafting Financial Code section 22378 and requested subdivision (d) of Section 1601 to be deleted or modified. A similar comment from a licensee directly affected by the proposed regulation was also received by the Department. The Department will study the impact of the change on consumer protection during the pilot program, which ends on December 31, 2017.

The Department was unaware from the language of Financial Code section 22378, or from the legislative committee analyses and legislative hearings on Senate Bill 318, that the bill's author intended to extend the branch manager provision under the pilot program to non-pilot program loans made under the California Finance Lenders Law.

Financial Code section 22378, as added by Senate Bill 318, permits the appointment of one branch manager with responsibility for multiple branch locations, subject to approval requirements, for a licensee approved by the Commissioner to participate in the pilot program. However, licensees under the California Finance Lenders Law are prohibited from permitting a single branch manager to manage multiple branch locations. Senate Bill 318 did not amend the California Finance Lenders Law with respect to branch manager requirements and therefore consistent with the California Finance Lenders Law, the proposed rule under the pilot program as originally noticed to the public would have prohibited a licensee from permitting the same branch manager to manage any branch location at which non-pilot program loans are also being offered.

2. Clarify the wording in item number 11 of the finder registration form in Section 1603 concerning the name and contact information of each employee of the finder who is responsible for the finder's finding activities. The change was made in response to a comment from Senator Hill that Section 1603 should be changed to reflect the language in Financial Code section 22375, subdivision (a)(3). The Department did not intend Section 1603's language to imply that a "unique contact at each finder location" is required. Accordingly, the Department added clarifying language to prevent further misunderstanding.
3. Specify that the content of the credit education required in Section 1608 may include information on how to maintain a basic bank account; manage a

household budget; and set financial goals and develop a plan for achievement, including strategies for saving; and legal reasons for denying a loan and how to report any potential loan discrimination or illegal activities to government agencies. The change was made in response to a comment from an interested party that the current content of the credit education is too narrow and that expanding the content would encourage lenders to offer high-quality financial information to borrowers.

The initial statement of reasons for the proposed action containing all the information upon which the proposal is based is available at the Department's website www.dbo.ca.gov. To access the document from the Department's Web site, click on the "Laws & Regs" tab at the top of the home page, click on the "Rulemaking" link under "Division of Corporations", click on the "California Finance Lenders Law" link, click on "PRO 15/13" under "Proposed Regulations", and then click on "Initial Statement of Reasons for Amendments to Regulations". The initial statement of reasons is also available by requesting Document PRO 15/13 – C from the contact person designated above.

The rulemaking file is available for public inspection and copying throughout the rulemaking process at the Department of Business Oversight, Legal Division - Policy Unit, 1515 K Street, Suite 200, Sacramento, California 95814.

The proposed changes to the Commissioner's rules in the text accompanying this notice are not yet effective, and will not be effective until approved by the Office of Administrative Law and filed with the Secretary of State in accordance with Government Code Section 11349.3.

Dated: April 2, 2014
Sacramento, California