

California Expands Debt Collection Protections for Small Businesses and Consumers

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On September 24, California enacted a [series of consumer protection laws](#), including three bills aimed specifically at restricting certain debt collection practices in connection with medical debt reporting, civil actions for money judgments, and commercial debt collection.

SB 1061: Medical Debt Reporting Ban

Under [SB 1061](#), medical debt will no longer be allowed on consumer credit reports in California. Additionally, the law prohibits lenders from using medical debt as a negative factor when making credit decisions. With this legislation, California becomes the eighth state to block the use of medical debt in credit reporting. This aligns with ongoing efforts by the CFPB to remove medical debt from credit reports nationwide (a move we previously discussed [here](#)).

AB 2837: New Rules for Wage Garnishments and Bank Levies

[AB 2837](#) introduces new requirements for wage garnishments and bank levies. Judgment creditors must now take extra steps to verify the debtor's address and provide proper notice of enforcement. The law also limits how long a wage garnishment can be enforced and how often it can be sought. Additionally, financial institutions are required to protect exempt funds held in multiple accounts from being levied.

SB 1286: Expanding Protections to Commercial Debts

[SB 1286](#) broadens the Rosenthal Fair Debt Collection Practices Act (RFDCPA) to include certain small business debts, extending protections typically reserved for consumer debt. The law covers commercial debts up to \$500,000 and applies not only to third-party collectors but also to creditors collecting their own debts. Key updates include:

- **New Definitions.** The law defines a "covered commercial credit transaction" as one where

goods, services, or money valued up to \$500,000 are acquired on credit for non-personal use. It also introduces definitions for “covered commercial debt” and “covered commercial credit,” which encompass sales-based financing transactions.

- **Expanded Misrepresentation Protections.** The bill extends existing protections against threats and harassment under the RFDCPA to include commercial debtors.
- **Identity Theft Protections.** Small business debts are now covered under the RFDCPA’s identity theft provisions.
- **Preserving Existing Consumer Protections.** The bill maintains unique RFDCPA protections, such as time-barred debt disclosures and restrictions on judicial proceedings, and applies them to small business debt.

Putting It Into Practice: These new laws reflect California’s continued focus on shielding consumers and small businesses from purportedly harmful practices in the offering of financial products or services (previously discussed [here](#), [here](#), and [here](#)). The CFPB has also recently called out debt collection in its [2024 Annual Report 2024](#) (previously discussed [here](#)), as well as its [Summer 2024 Supervisory Highlights](#) (previously discussed [here](#)). California businesses engaged in collections would be wise to review and adjust their practices to ensure compliance with the updated regulations, as well as the CFPB’s most recent standards.

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