



STATE OF CALIFORNIA

Department of Business Oversight

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For Immediate Release
December 30, 2019

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DBO Denies Lending License Sought by Unregulated Point-of-Sale Financer and Issues Related Legal Opinion

SACRAMENTO – The California Department of Business Oversight (DBO) today [denied](#) an application by point-of-sale lender Sezzle, Inc., to make loans under the California Financing Law (CFL) after determining the Minnesota-based fintech company had engaged in illegal unlicensed lending in the state.

In a parallel action, the DBO issued a legal [opinion](#) advising a second, unnamed lender that its point-of-sale products also meet the Civil Code and case law definition of “loans” and require a CFL license to be offered in California.

In its license application, Sezzle said its product provides “interest free on-line financing to consumers.” The lender targets young consumers who are unable to qualify for traditional financing options, like credit cards. Consumers pay Sezzle 25 percent of the purchase price at the time of purchase and the remainder in three equal installments due every two weeks.

Merchants pay Sezzle a cut of each transaction, and consumers pay Sezzle fees if they miss or wish to reschedule payments. Under the guise of purchasing from merchants already-consummated credit sale contracts – which may not be covered by the CFL – Sezzle designed its financing product to evade California and federal law.

Following a review of the company’s product and information Sezzle provided in connection with its application, the DBO determined Sezzle was making unregulated loans to California consumers in violation of the CFL.

The DBO concluded the purported credit sales made by Sezzle’s merchant partners were not bona fide but, rather, were structured to evade otherwise applicable consumer protections. In addition, the DBO found that Sezzle’s extensive role in its merchants’ transactions and pre-existing relationship with some consumers who were parties to the purported credit sales showed that Sezzle was making loans under California law.

Sezzle is one of a number of companies now offering unregulated, point-of-sale financing to Californians. In the related interpretive opinion, the DBO concludes that point-of-sale financing transactions may be deemed loans when:

- The consumer, merchant, and third-party financier treat the transactions like loans, despite contradictory language in the applicable contracts;
- The relationship between merchant and third-party financier is extensive;
- The role of the third-party financier and all financing terms are not clearly disclosed to the consumer; and
- The financing transaction is not otherwise regulated.

The DBO licenses and regulates financial services, including state-chartered banks and credit unions, money transmitters, securities broker-dealers, investment advisers, non-bank installment lenders, payday lenders, mortgage lenders and servicers, escrow companies, franchisors and more.

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