

Date of Hearing: April 1, 2025

Fiscal: No

ASSEMBLY COMMITTEE ON PRIVACY AND CONSUMER PROTECTION

Rebecca Bauer-Kahan, Chair

AB 483 (Irwin) – As Amended March 24, 2025

SUBJECT: Fixed term installment contracts: early termination fees

SYNOPSIS

Early termination fees place many consumers in a difficult predicament. When consumers suffer a sudden financial strain, they are forced to make difficult decisions about the expenses they must cut to continue making ends meet. If belt-tightening entails early termination fees, the consumer is left in a no-win situation. They can either continue paying for a service they no longer need and often can no longer afford, or they must pay a lump sum, often significantly more expensive than the typical monthly bill. Compounding this problem, The Federal Trade Commission (FTC) and Federal Communications Commission (FCC) have found a pattern of customers entering into fixed-term agreements with service providers, often without being adequately informed about the potential for incurring significant fees if they do not or cannot finish the contract term.

This author-sponsored bill intends to address the problems reported by the FTC and the FCC by prohibiting fixed term installment contracts that impose an early termination fee in an amount greater than 20 percent of the total cost of the contract. In addition, the bill establishes basic requirements for clearly disclosing the potential fees associated with ending the contract early.

The Consumer Attorneys of California are in support of the bill. The California Chamber of Commerce, Retailers Association, CalBroadband, Calcom, and the US Telecommunication Association are all opposed.

THIS BILL:

- 1) Defines “early termination fee” to mean an additional fee charged to the consumer as a result of the consumer’s election to apply a term or clause in the contract that allows the consumer to suspend installment payments and access to the good or service before the end of the period of time during which installment payments are being made by the consumer.
- 2) Defines “fixed term installment contract” to mean a contract for the sale of goods or service by a seller to a consumer for a deferred payment price payable in regular installments, required to be made during a fixed period of time until the price is paid in full.
- 3) States that “good” and “service” include tangible and intangible goods, including digital software.
- 4) Defines “termination” to mean that the consumer has elected to apply a clause in the contract that authorizes a consumer to suspend making installment payments and end access to the good or service.

- 5) States that “termination” does not include a general failure of a consumer to perform an obligation of the contract, including a failure to make installment payments.
- 6) Prohibits a fixed term installment contract entered into or modified on or after January 1, 2026, from including a fee to a consumer who terminates the contract unless the contract includes either of the following:
 - a) A clear and conspicuous explanation of the total cost of the early termination fee in writing.
 - b) The formula used to calculate the early termination fee, including a sample calculation illustrating the highest possible early termination fee.
- 7) Requires that the disclosure requirements be viewable by the consumer without requiring a hyperlink, tooltip pop-up, or any other feature that requires additional interaction on behalf of the consumer.
- 8) Deems a broadband service that complies with federal broadband consumer requirements, including the consumer label, compliant with the disclosure requirement.
- 9) Prohibits the contract from including an early termination fee, or any similar fee that is greater than 20 percent of the total cost of the contract.
- 10) Clarifies that the bill should not be interpreted to prohibit a contract from requiring the return of a good if the installment is terminated.

EXISTING LAW:

- 1) Establishes the Unfair Competition Law (UCL), which provides a statutory cause of action for any unlawful, unfair, or fraudulent business act or practice and unfair, deceptive, untrue, or misleading advertising, including over the internet. (Bus. & Prof. Code §§ 17200-17210.)
- 2) Establishes the False Advertising Law (FAL), which proscribes making or disseminating any statement that is known or should be known to be untrue or misleading with the intent to directly or indirectly dispose of real or personal property. (Bus. & Prof. Code §§ 17500-17606.)
- 3) Establishes the Consumers Legal Remedies Act (CLRA), which prohibits certain enumerated unfair methods of competition, and unfair or deceptive acts or practices, in connection with a transaction intended to result, or that does result, in the sale or lease of goods or services. (Civ. Code §§ 1750-1784.)
- 4) Defines the following terms under the CLRA:
 - a) “Goods” means tangible chattels bought or leased for use primarily for personal, family, or household purposes. (Civ. Code § 1761(a).)
 - b) “Services” means work, labor, and services for other than a commercial or business use, including services furnished in connection with the sale or repair of goods. (Civ. Code § 1761(b).)

- 5) Provides that the CLRA's underlying purposes are to protect consumers against unfair and deceptive business practices and to provide efficient and economical procedures to secure such protection. (Civ. Code § 1760.)
- 6) Provides that if a person with a gym membership moves further than 25 miles from the facility and is unable to transfer the contract to a comparable facility, the person may be charged a predetermined fee not exceeding \$100, or, if more than half the life of the contract has expired, such person may be charged a predetermined fee not exceeding \$50. (Civ. Code § 1812.89.)
- 7) Recognizes that consumer confidence is essential to the growth of online commerce and that to continue its development as a marketplace, the internet must provide consumers with clear, accurate information and give sellers an opportunity to fairly compete with one another for consumers' business. (15 U.S.C. § 8401.)
- 8) Provides that it is unlawful for a person to charge or attempt to charge a consumer for any goods or services on the internet through a negative option feature, unless the person:
 - a) Provides text that clearly and conspicuously discloses all the terms of the transaction before obtaining billing information.
 - b) Obtains a consumer's express informed consent before charging the consumer's method of payment.
 - c) Provides a simple mechanism for the consumer to stop recurring charges from being placed on the consumer's method of payment. (15 U.S.C. § 8403.)
- 9) "Negative option feature" means, in an offer or agreement to sell or provide any goods or services, a provision under which the customer's silence or failure to take an affirmative action to reject goods or services or to cancel the agreement is interpreted by the seller as acceptance of the offer. (16 CFR § 310.2(w).)

COMMENTS:

1) **Author's statement.** According to the author:

Despite the successes of recent consumer protection legislation regarding drip pricing and automated subscriptions, cancellation fees for installment contracts continue to be rampant. These are fees that stand between a consumer and the decision to stop using a service early to save money. Businesses often argue that cancellation fees act as a mechanism to balance out the discount a consumer may have received in exchange for their long-term commitment. While this justification has merit, it too frequently comes at the cost of consumers and it is not clear when fees go beyond recoupment of discounts. Without clear communication to a consumer on what potential cancellation fees they may face, consumers may be enticed into a long-term commitment they cannot afford. Additionally, cancellation fees frequently make it more financially painful to cancel a service someone can no longer afford, preventing them from being able to respond to rising cost of living expenses.

AB 483 will protect consumers from these predatory cancellation fees on their fixed term installment contracts by requiring distinct transparency for cancellation fee terms when the consumer first agrees to the contract. The bill also caps any potential cancellation fee to 20% of the total contract cost. This will ensure the fee is proportional to what the consumer expects to pay and avoids consumers feeling financially trapped.

2) Federal Communications Commission (FCC) proposed rulemaking on early termination fees. In December 2023, the FCC voted to propose a ban on early terminations fees charged by cable operators and direct broadcast satellite service providers. In announcing the proposal, the FCC noted that “subscribers may terminate service for any number of reasons, including moving, financial hardship, or poor service” and charging an early termination fee “makes it costly for consumers to switch services.”¹ As a result, consumer choice may be limited, reducing competition for video services. In addition to eliminating early termination fees, the FCC noted that “billing cycle fees require TV video service subscribers to pay for a complete billing cycle even if the subscriber terminates service prior to the end of that billing cycle.” As a result, consumers are further penalized by being required to pay for services they no longer want.²

The pending FCC proposed rule includes the following:

1. Prohibiting service providers from imposing a fee for early termination.
2. Rendering any existing agreements related to an early termination fee unenforceable.
3. Requiring service providers to grant subscribers a prorated credit or rebate for the remaining days in the billing cycle after the service has been cancelled.³

3) United States v. Adobe, Inc. In July 2024, the Federal Trade Commission (FTC) filed a suit against software developer Adobe,⁴ the maker of Photoshop and Acrobat for “deceiving consumers by hiding the early termination fee for its most popular subscription plan and making it difficult for consumers to cancel their subscriptions.”⁵ The complaint charges that “Adobe pushed consumers toward the ‘annual paid monthly’ subscription without adequately disclosing that cancelling the plan in the first year could cost hundreds of dollars.”⁶ Among the unethical practices highlighted in the FTC complaint was Adobe’s use of tooltips and a number of additional hyperlinks to make it difficult for consumers to find contract terms. The complaint also mentions that one Adobe executive admitted “the hidden ETF [early termination fee] is ‘a bit like heroin for Adobe’ and ‘there is absolutely no way to kill off ETF or talk about it more obviously [without] taking a big business hit[.]’”⁷ It is unclear whether the new federal administration will continue to pursue this case. As of this hearing, its status is still pending.

¹ FCC Press Release: FCC TAKES ACTION AGAINST VIDEO SERVICE JUNK FEES TO PROTECT CONSUMERS AND PROMOTE COMPETITION (Dec. 13, 2025) <https://www.fcc.gov/document/fcc-proposes-rules-eliminate-video-service-junk-fees>.

² *Ibid.*

³ Federal Communications Commission 47 CFR Parts 25 and 76 [MB Docket No. 23-405; FCC 23-106; FRS ID 192513] <https://www.fcc.gov/document/fcc-proposes-rules-eliminate-video-service-junk-fees>.

⁴ *United States v. Adobe, Inc.*, 24-cv-03630-BLF (N.D. Cal. Jul. 23, 2024)

⁵ *United State v. Adobe, Inc.* Case Summary (Jul. 25, 2024) <https://www.ftc.gov/legal-library/browse/cases-proceedings/222-3055-adobe-inc-us-v>

⁶ *Ibid.*

⁷ *United States v. Adobe, Inc.*, 24-cv-03630-BLF (N.D. Cal. Jul. 23, 2024).

4) California’s consumer protections related to subscription contracts and up-front pricing.

In recent years, the California Legislature and the Governor have taken a number of steps to protect consumers from deceptive practices such as making it difficult to cancel contracts that automatically renew or using drip pricing to deceive consumers about the true cost of goods and services they are purchasing. Specifically, AB 2863 (Schiavo, Ch. 515, Stats. 2024) implemented consumer protection measures for automated renewal subscriptions. Additionally, SB 478 (Dodd, Ch. 400, Stats. 2023) prohibits businesses from advertising prices that do not include all mandatory fees and charges.

Early termination fees are not covered by either of these recent policy changes. SB 478 implements protections on one-time purchases and AB 2863 implements protections on monthly subscriptions. Early termination fees are not mandatory fees, meaning that most consumers do not pay them, unlike processing or transaction fees, which are mandatory add-on fees. This means that early termination fees are not required to be disclosed under SB 478. Additionally, these contracts typically do not auto-renew into a monthly subscription, meaning they do not fall under AB 2863’s protections.

The author points to Civil Code Section 1812.89 as precedent for imposing a cap on early termination fees. That section specifies that, for gyms or health studios, if the consumer is cancelling the contract due to moving away and is unable to transfer the contract to a comparable facility, a cancellation fee cannot exceed \$100 or \$50 if more than half the life of the contract has expired.

This proposal appears to be in keeping with the precedents set by recent federal government actions and the Legislature’s approval of additional protections for consumers who may fall prey to deceptive practices.

5) Are early termination fees necessary to recoup a discount provided to the consumer?

Opponents of the bill argue:

Contract agreements enable businesses to provide more consumer-friendly deals by ensuring they can recover costs over time. This confidence allows them to offer services or equipment for free or at a significantly reduced price. However, imposing a cap on fees would force businesses to eliminate these offerings, as they would have no way to recoup their initial investment. In other words, capping fees at 20% would ultimately drive-up upfront costs for consumers, as businesses would need to safeguard against potential losses—creating a barrier to access.

The author provides an example, which suggests that this argument may not hold up to scrutiny, pointing to Verizon’s 2009 doubling of its termination fees to account for the increasing costs of cell phones. However, the formula they used for their termination fees would still charge a consumer a termination fee of \$120 if they tried to cancel their contract in the last month of a two year contract for a phone which had a cost of \$539.⁸

6) What this bill would do. This bill includes two primary requirements:

⁸ <https://www.informationweek.com/it-sectors/fcc-probes-verizon-early-termination-fees>

1. That a business offering a fixed-term installment option provide a clear, upfront disclosure about the terms of the installment plan and the fees associated with early termination of the contract.
2. Caps the amount of early termination fees that businesses can charge at 20 percent of the entire value of the contract.

ARGUMENTS IN SUPPORT: The Consumer Attorneys of California write in support:

Despite the successes of recent consumer protection legislation regarding drip pricing and automated subscriptions, early termination fees continue to be rampant. Businesses often argue that early termination fees act as a mechanism to balance out the discount a consumer may have received in exchange for their long-term commitment. However, it is not clear when fees go beyond recoupment of discounts. Businesses who do not clearly disclose and explain how cancellation fees are calculated prioritize their own profits over the understanding of the consumer and general notions of fairness.

ARGUMENTS IN OPPOSITION: In opposition to the bill, California Chamber of Commerce and the California Retailers Association argues:

Installment contracts are commonly used across a range of industries for a long-term commitment to be paid overtime. Some factual examples of such services include: (1) an ongoing service for a defined period (including physical services, or software); (2) ongoing use of physical equipment, to be paid for over time (e.g., a rental with periodic payments); or (3) a delayed purchase wherein the consumer acquires the item now, and commits to pay for it over time (a “rent-to-own” model).

In a variety of industries, consumers benefit from arrangements that allow them to receive a significant portion of the benefit of that installment contract initially – or a discount for a longer commitment. For example: in the case of an ongoing service, a consumer may be given a lower total price due to the length of their commitment. However, AB 483 would disincentivize such a discount, because any such discount implicitly limits the recoverable amount if the consumer breached the agreement to 20% of the total value of the contract.

We are similarly concerned that AB 483’s limitations will harm businesses’ ability to craft workable contracts in situations where the risk that they carry is greater than 20% of the value of the contract in the event that the consumer “terminates”.

REGISTERED SUPPORT / OPPOSITION:

Support

Consumer Attorneys of California

Opposition

Calbroadband

Calcom Association

California Chamber of Commerce

California Retailers Association
United States Telecom Association DbA Ustelecom - the Broadband Association

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