



State Of California
Business, Transportation And Housing Agency
DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

www.corp.ca.gov

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CHANGES TO THE COVERED LOAN LAW

This release addresses frequently asked questions concerning recent amendments to laws governing covered loans under Division 1.6 (commencing with Section 4970) of the Financial Code hereinafter referred to as the Covered Loan Law.

The Covered Loan Law sets forth certain prohibitions, restrictions, and limitations in connection with covered loans originated by licensed persons, as specified. A covered loan includes a consumer loan secured by real property where the loan exceeds a specified annual percentage rate or a certain percentage of points and fees, as specified. [Financial Code Section 4970(b).] A licensed person includes, among others, a finance lender or broker licensed under the California Finance Lenders Law, and a residential mortgage lender licensed under the California Residential Mortgage Lending Act. [Financial Code Section 4970(g).] As the licensing agency, the Department of Corporations is responsible for enforcing the Covered Loan Law with respect to these licensees. [Financial Code Section 4970(f).]

Effective January 1, 2006, Assembly Bill 901 (Chapter 531, Statutes of 2005) amended the definition of covered loan to mean a consumer loan in which the original principal balance does not exceed the most current conforming loan limit for a single-family first mortgage loan established by the Federal National Mortgage Association, as specified.

FREQUENTLY ASKED QUESTIONS

- When are the amendments to the Covered Loan Law, including the change in the dollar amount of a covered loan, enforced by the Department of Corporations?
 - When Assembly Bill 489 (Chapter 732, Statutes of 2001) added the Covered Loan Law, its provisions were applicable to a consumer loan applied for on or after July 1, 2002. In the absence of an urgency clause or a specified

effective date (and consistent with the original version of the law), the Department of Corporations will administer and enforce the amendments to the Covered Loan Law for loans applied for on or after January 1, 2006.

- For purposes of defining a covered loan under Financial Code Section 4970(b), what is the single-family mortgage loan limit established by the Federal National Mortgage Association?
 - For 2006, the Federal National Mortgage Association has announced the single-family mortgage loan limit to be \$417,000. Future changes to the loan limit will be made available on this association's website at **www.fanniemae.com**.
- In enforcing the Covered Loan Law, are yield spread premiums included in the points and fees payable by the consumer at or before closing for the purpose of calculating the percentage of points and fees in the definition of covered loan?
 - Under current law, yield spread premiums are not included in the points and fees payable by the consumer at or before closing for purposes of defining a covered loan under Financial Code Section 4970(b). See Wolski vs Fremont Investment & Loan (2004) 127 Cal. App. 4th 347.

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