



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

www.corp.ca.gov

Arnold Schwarzenegger
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**IMPLEMENTATION OF GUIDANCE INCLUDING "BEST PRACTICES"
FOR CERTAIN NONTRADITIONAL AND ADJUSTABLE RATE
MORTGAGE LOAN PRODUCTS**

This release announces the Department of Corporations' ("Department") recent rulemaking action to implement the Guidance on Nontraditional Mortgage Product Risks published on November 14, 2006 by the Conference of State Bank Supervisors ("CSBS") and the American Association of Residential Mortgage Regulators ("AARMR"), and the more recent Statement on Subprime Lending published on July 17, 2007 by CSBS and AARMR (collectively the "Guidance"), for licensed finance and residential mortgage lenders ("licensees") operating under the California Finance Lenders Law and the California Residential Mortgage Lending Act. This Release also encourages licensees to implement the Guidance now when making or arranging nontraditional or adjustable rate mortgage loan products that are subject to the Guidance, and to help achieve a smooth transition pending adoption of the final rules.

Pending Adoption Of Rulemaking By The Department

During May 2007, the Department made available for publication its proposed rulemaking, and revised the rulemaking during August 2007, and again during October 2007, to carry out the Guidance.

As revised and proposed to be adopted, the rulemaking implements the Guidance by requiring licensees to do all of the following: (1) implement best practices to manage product risk on a continuous basis including practices set forth in the Guidance; (2) report annually to the Department on whether they have made or arranged nontraditional mortgage products and adjustable rate mortgage products as defined by the Guidance, whether and how they have implemented best practices in relation to the Guidance including internal controls or procedures, as specified, and to report annually on the number of consumer complaints and workout arrangements; (3) maintain specified documentation as part of their books and records, and make this

documentation available to the Department upon request; (4) require specified disclosures for these nontraditional and adjustable rate mortgage loans; and (5) prohibit certain false, misleading, and deceptive advertising, as specified. Forms for making reports of nontraditional and adjustable rate mortgage products and for making certain disclosures, as specified by the rules, are also available on the Department website.

The rulemaking package is pending approval by the Office of Administrative Law.

Implementation Of The Guidance By Licensed Lenders

It is anticipated that the pending rules of the Department could be adopted and effective on and after January 1, 2008, consistent with Senate Bill 385 (Chapter 301, Statutes of 2007). Among other things, that legislation requires licensees to adopt and adhere to policies and procedures to achieve the objectives of the Guidance. Accordingly, if they have not already done so, licensees should become familiar and comply with the Guidance, now. In addition, licensees should review the above-referenced rules so they can take necessary steps to achieve compliance.

For Further Information

Copies of the proposed rulemaking documents, the forms required by the rules, Senate Bill 385, and the Guidance are available on the Department's website at www.corp.ca.gov.

Should you have any questions concerning this Release, please contact the Department's Consumer Resource Center at 1-866-275-2677.

Preston DuFauchard
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By _____
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