SECTION III
DISCLOSURES REQUIRED WHEN FINANCING REAL PROPERTY

This section deals primarily with disclosures a real estate licensee or a lender must make to a prospective borrower in certain real property secured loan transactions. Disclosures required in certain defined seller "carry-backs" are also included.

A. Advance Fees

Unless an appropriate exemption applies, should any kind of fee or charge be contracted for or demanded, imposed, or collected by a mortgage broker (but not a lender) **in advance** of providing the service or closing the loan, California law requires that the broker use with the public an "advance fee" agreement which has been pre-approved by the Real Estate Commissioner. The advance payment of appraisal and credit report fees collected by the broker for payment in the same amount to third-party service providers do not require a prior approved advanced fee agreement.

Advance fees must be deposited into the broker's trust account and disbursements from the trust account may only be made consistent with applicable law, including the requirements set forth in the Commissioner's Regulations.

(CAL. BUS. & PROF. §§ 10026, 10085, 10085.5, 10146; COMMISSIONER'S REGULATIONS 2970 and 2972)

B. Seller Financing Disclosure Statement

Some sellers participate in financing the sale of their property by extending credit to the buyer in the form of a seller "carry-back." This is usually in the form of a promissory note secured by a deed of trust. The state legislature enacted a disclosure law to ensure adequate disclosure and to prevent abuses involving seller-assisted financing plans. This law applies to real property transactions involving residential dwellings of not more than four units when the seller extends credit to the buyer through a written agreement which provides for either a finance charge or more than four payments of principal and interest, or interest only, excluding the down payment.

Unless an exemption applies, written disclosures required by this law are to be delivered to the seller and are the responsibility of the arranger of credit. An "arranger of credit" is defined as a person who is not a party to the transaction (except as noted below), but is involved in negotiation of the credit terms and completion of the credit documents. Unless performing as a defined principal, the arranger must be compensated for arranging the credit for the transaction.

The duty to provide the disclosures also applies to an attorney or a real estate licensee who is a principal in the transaction. The disclosure statement required by this law must be delivered as soon as possible before the execution of any note or security document. The arranger of credit, the buyer, and the seller each must sign and receive a copy of the disclosure statement. If there is more than one arranger of credit, the arranger obtaining the offer from the buyer is responsible for making the disclosure. However, another person may be designated in writing by the parties to the transaction to make the disclosures.

Notwithstanding the foregoing, the arranger of credit representing the seller would have a duty, as agent of the seller, to ensure that the seller receives an appropriate disclosure of the material credit terms of the credit transaction as described herein.

The disclosure statement is to include comprehensive information about the financing, cautions applicable to certain types of financing, and suggestions of procedures that are intended to protect the parties during the term of the financing. The disclosures include:

- Identification of the note, credit, and security document and the property which is or will become the security;
- A copy of the note, credit, and security document, or a description of the terms of these documents;
- The terms and conditions of each encumbrance recorded against the property which will remain as a lien or is an anticipated lien that will be senior to the financing being arranged;
- A warning about the hazards and potential difficulty of refinancing and, if the existing financing or the financing being arranged involves a balloon payment, the amount and due date of the balloon payment and a warning that new financing may not be available;
- An explanation of the possible effects of an increase in the amount owed due to negative amortization as a result of any variable or adjustable-rate financing being arranged, particularly if senior to the seller financing;
- If the financing involves an all-inclusive trust deed (AITD), a statement of the possible penalties, discounts, responsibilities, and rights of parties to the transaction with respect to acceleration and/or prepayment of a prior encumbrance as the result of the creation and/or refinancing of the AITD;
- If the financing involves an AITD or a real property sales contract, a statement identifying the party to whom payments will be made and to whom such payments will be forwarded; and if the party receiving and

forwarding the payments is not a neutral third party, a warning that the principals may wish to designate a neutral third party;

- A complete disclosure about the prospective buyer, including credit and employment information along with a statement that the disclosure is not a representation of the credit worthiness of the prospective buyer; or, a statement that no representation regarding the credit worthiness of the prospective buyer is being made;
- A warning regarding possible limitations on the seller's ability, in the event of foreclosure, to recover proceeds of the sale financed (Code of Civil Procedure Section 580b);
- A statement recommending loss payee clauses be added to the property insurance policy to protect the seller's interest (e.g., Board of Fire Underwriters' Endorsement No. B.F.U. 438) and advising of the existence or availability of services which will notify the seller if the property taxes are not paid;
- A statement suggesting or acknowledging that the seller should file or has filed a request for notice of delinquency (Civil Code Section 2924e) and a request for notice of default (Civil Code Section 2924b) in case the buyer fails to pay liens senior to the financing being arranged;
- A statement that a title insurance policy has been or will be obtained and furnished to the buyer and seller insuring their respective interests, or that the buyer and seller should each obtain title insurance coverage;
- A disclosure whether the security documents for the financing being arranged have been or will be recorded, and what might occur if the documents are not recorded; and
- Information as to whether the buyer is to receive any "cash back" from the sale, including the amount, source, and purpose of the cash refund.

The requirement of a seller financing disclosure statement also applies to transactions by real property sales contracts (as defined in Civil Code Section 2985) and to leases with option-to-purchase provisions where the facts demonstrate intent to transfer equitable title. If the extension of credit is subject to a balloon payment, a balloon payment notice is to be included on the face of the promissory note or other evidence of debt.

An arranger of credit must inform the seller that a buyer who intends to occupy the real property involved may have the right to homeownership counseling in the event of a default in the mortgage payments, including the payments being made on the seller "carry-back." The person collecting the payments, whether the seller or a loan servicing agent, has the duty to inform the defaulting homeowner of the availability of such counseling. The duty to

inform a defaulting homeowner of the availability of counseling is operative regardless of the nature of the credit transaction, whether the homeowner has suffered a reduced ability to make payments, or whether an arranger of credit is present in the transaction.

(CAL. CIV. § 2956 et. seq.; 12 U.S.C. § 1701x – THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987)

C. California Required Disclosures to Borrowers

Unless an appropriate exemption applies, a real estate broker who solicits or negotiates loans on behalf of borrowers or lenders to be secured directly or collaterally by liens on real property must deliver a written disclosure statement to the borrower. The statement is to be delivered within three business days of receipt of the borrower's written loan application or before the borrower becomes obligated to complete the loan, whichever is earlier.

The required statement, known as the Mortgage Loan Disclosure Statement (MLDS) or the Mortgage Loan Disclosure Statement/Good Faith Estimate (MLDS/GFE) must be in a form approved by the Real Estate Commissioner and shall contain the following disclosures:

1. Expected maximum costs and expenses of making or arranging the loan which are to be paid by the borrower, including, but not limited to, fees for appraisal, settlement/escrow, credit report, title insurance, recording, and notary services.
2. Total amount of real estate commissions/fees to be received by the broker, regardless of the form, time, and source of payment, for services performed in arranging the loan including, but not limited to, points, loan origination fees, bonuses, rebates, premiums, discounts as well as other charges received by the real estate broker in lieu of interest in transactions where the broker acts as the lender. For example, the broker may act as the lender only, as the lender and the arranger of the secured loan transaction, or as a broker/agent only in the secured loan transaction. The disclosure must distinguish between commissions/fees, bonuses, rebates and premiums paid to the broker and loan origination fees, bonuses, and discounts paid to the lender.
3. Liens against the real property disclosed by the borrower and whether each lien will remain senior or will be subordinate to the lien that will secure the subject loan(s).
4. Liens, including the lien securing the subject loan, which are anticipated to be secured by the real property and the order of priority of such liens.

5. Estimated amounts to be paid by the borrower for:
    - Fire insurance coverage;
    - Balances due on prior liens, including interest, prepayment penalties, fees for reconveyance, or other removal from record of prior liens;
    - Amounts due other creditors; and
    - Assumption, transfer, forwarding and beneficiary statement fees.
6. Estimated balance of the loan(s) to be paid to the borrower after deducting all commissions, loan fees, penalties, and costs and expenses to secure the loan.
7. The principal amount of the loan(s).
8. Rate of interest (whether fixed or variable).
9. Term of the loan(s); number and amount of each installment; the approximate loan balance at maturity; and the following notice in 10-point bold typeface:

    NOTICE TO BORROWER: IF YOU DO NOT HAVE THE FUNDS TO PAY THE BALLOON PAYMENT WHEN IT COMES DUE, YOU MAY HAVE TO OBTAIN A NEW LOAN AGAINST YOUR PROPERTY TO MAKE THE BALLOON PAYMENT. IN THAT CASE, YOU MAY AGAIN HAVE TO PAY COMMISSIONS, FEES, AND EXPENSES FOR THE ARRANGING OF THE NEW LOAN. IN ADDITION, IF YOU ARE UNABLE TO MAKE THE MONTHLY PAYMENTS OR THE BALLOON PAYMENT, YOU MAY LOSE THE PROPERTY AND ALL OF YOUR EQUITY THROUGH FORECLOSURE. KEEP THIS IN MIND IN DECIDING UPON THE AMOUNT AND TERMS OF THIS LOAN.

10. A statement containing the name, real estate license number and business address of the real estate broker negotiating the loan.

11. If the broker anticipates the loan will be made from funds owned or controlled by the broker, the broker's relative(s), or an entity in which the broker alone or together with a relative(s) has/have a 10% or greater interest, the broker's statement to that effect.

12. Terms of prepayment of the loan, including the amount of penalty, if any.

13. A statement that the purchase of credit life or disability insurance is not required as a condition of the loan.

14. If the loan is secured by a senior trust deed of less than $30,000 or a junior trust deed of less than $20,000, a statement that the loan is being made in compliance with Article 7 of Chapter 3 of the Real Estate Law.

***NOTE**: If the loan is negotiated in Spanish, Chinese, Tagalog, Vietnamese or Korean, the MLDS or the MLDS/GFE must be provided in that language.*

The Real Estate Commissioner's Regulations contain approved forms for the MLDS AND MLDS/GFE. The forms each include a notice to the borrower of the importance of stating accurately the amount, type, and priority of existing and anticipated liens. The borrower and the broker/agent negotiating the loan must each sign the MLDS or the MLDS/GFE. The broker/agent negotiating the loan must keep a signed copy of the statement on file for three years.

A broker/agent who initially holds himself/herself out as an agent arranging a loan will be subject to this disclosure requirement even though he/she ultimately makes the loan with his/her own money or with broker-controlled funds. In that case, the amount of compensation disclosed will include any loan origination fees, discounts, bonuses, or other compensation that the broker collects as the lender.

(CAL. BUS. & PROF. §§ 10240, 10241, 10245; COMMISSIONER'S REGULATIONS 2840, 2841, 2842.5, 2843)

D. California Required Disclosures to Certain Lenders or Promissory Note Purchasers

1. General Disclosure Requirements.

Depending on the fact situation, a real estate broker may arrange:

- A loan secured by real property;
- The sale of a loan secured by real property;
- A loan secured by a loan (the collateralized loan) which is secured by real property; or
- The sale of a loan secured by a collateralized loan.

Should a loan or sale of a promissory note (other than when collateralized) have multiple lenders or note purchasers, it is governed by the multi-lender statute and is issued as discussed below pursuant to an exemption from qualifications and registration under the Corporate Securities Law of 1968, as discussed below.

In both multi-lender and non multi-lender loan transactions, the broker must give the lender or note purchaser the Lender/Purchaser Disclosure Statement

(LPDS) except in those fact situations where the LPDS is not required by statute. Because of the statute's many defined institutional and licensed lender exemptions, this disclosure obligation is owed primarily to private parties and to pension plans regulated by the Employees' Retirement Income Security Act (ERISA) having net worths of less than 15 million dollars. In addition, this disclosure obligation is owed to certain non-ERISA regulated pension plans, e.g., IRA's or SEP-IRAS.

The disclosures contained in the LPDS must include:

- Material terms of the loan;
- Status of all existing loans/liens against the security property;

  NOTE: *A broker is to inform the prospective lender or note purchaser of the option to purchase a title insurance policy or an endorsement to an existing title insurance policy insuring the lender's or note purchaser's interests in the security property. A broker should also deliver to the prospective lender or note purchaser a copy of the intended borrower's written loan application and the borrower's credit report.*

- Information about the security property as follows:
  - Address, assessor's parcel number, and, if available, the legal description;
  - Age, size, and type of construction of any improvements;
  - The fair market value as estimated by an appraisal, a copy of which appraisal report shall be provided to the prospective lender; and

    NOTE: *A lender may waive the requirement of an independent appraisal in writing, on a case-by-case basis, in that event the real estate broker shall provide the broker's written estimate of fair market value for the security property, which shall include the objective data upon which the broker's estimate is based.*

  - Existing and expected or anticipated encumbrances and the investor's protective equity (the difference between the market value of the property and the total senior indebtedness plus the subject loan or loans).
- Pertinent data about the borrower, including identity, occupation, employment, income and credit, as represented to the broker by the borrower or through third parties; or, in the sale of a loan, similar information about the ability of the trustor to meet the contractual obligations under the note or contract, including payment history;

- Loan servicing arrangements or lack thereof in other than multi-lender transactions;
- The broker's capacity in the secured transaction as an agent or principal, or as both an agent and principal (a broker may initially hold himself/herself out as arranging a loan but ultimately make the loan with his/her own funds or with broker-controlled funds); and
- If the broker in other than multi-lender transactions will directly or indirectly obtain the use or benefit of some or all of the funds other than for commissions, fees, costs, and expenses for services as an agent, a detailed statement of the intended use and disposition of the funds, including an explanation of the nature of the benefit to the broker.

The lender/purchaser must receive the statement before becoming obligated to complete the loan transaction. The broker must also deliver the statement to the Department of Real Estate (DRE) in advance of accepting loan funds if the broker will directly or indirectly obtain the use or benefit of the funds.

2. Multi-Lender Transactions.

Certain multi-lender transactions arranged by a real estate broker are exempt from qualification and registration under the Corporate Securities Law of 1968 through the Department of Corporations. Unless a securities permit issued by the Department of Corporations or other bona fide exemption, the broker must comply with all the provisions of Business and Professions Code Sections 10237 et seq., including specified notices, advertising, trust accounting, reporting to the Department of Real Estate, disclosure to the prospective lenders or note purchasers and other related requirements. The interests of each lender/purchaser is to be secured directly by a recorded deed of trust on California property describing each lender's interest or an assignment of fractionalized interest in the deed of trust. The deed of trust or an assignment of the interest in the deed of trust must be properly recorded and in no event later than 10 days as set forth Business and Professions Code 10234. These transactions, commonly known as "fractionalized" loans, may not include more than ten lenders or note purchasers, as defined. Each lender or note purchaser must have a qualified net worth or annual income, as specified.

(CAL. BUS. & PROF. § 10238)

"Self-dealing" is not permitted in multi-lender transactions except in limited circumstances that are statutorily defined and the transaction must be fully disclosed in the Lender/Purchaser Disclosure Statement. Further, multi-lender transaction***s*** must provide for loan servicing by a real estate broker or other authorized party and, therefore, are to include servicing agreements with the identified loan servicing agent. In addition, the broker shall disclose

the same information as previously described for single lender/purchaser transactions, as well as the following information:

- A separate notice of the right to obtain a copy of the appraisal;
- A written statement from the broker including the analysis of and support for exceeding the maximum statutory loan-to-value ratios (the amount of the loan or loans in relationship to the market value of the security property, which in no event is to exceed 80 percent of the current fair market value of improved real property or 50 percent of the current market value of unimproved real property or 65% in those circumstances where the unimproved real property is zoned single family residential and all offsite improvements are in place;

  NOTE: *if the loan is subject to certain defined mortgage insurance coverage, the foregoing loan-to-value ratio maximums may be exceeded by the amount of the loan covered by the such insurance;*

- Default and foreclosure procedures for governing the actions of all holders of interests in the loan by the vote of holders of more than 50 percent of the beneficial interests**,** excluding any interest held by the broker or an affiliate of the broker;

  NOTE: *This requirement must be included in the documentation of the transaction.*

- The identity of the escrow holder for the transaction; and
- The right, upon demand, to obtain the names and addresses of the other lenders or note holders of the loan.

(CAL. BUS. & PROF. § 10238)

3. Construction Loans and Multiple Security Properties in Multi-Lender Transactions.

As of January 1, 2004, the multi-lender statutory exemption was amended expanding the ability of a real estate broker to arrange transactions which would include construction loans and loans with multiple security properties. Although this expansion provides limited authority, such loan transactions have become commonplace within the mortgage industry.

The amendments, among others, redefined the phrase "current market value" which may now be deemed to be the value of the completed project (the construction, development, or improvements being financed), provided that the following safeguards are met and appropriate disclosures thereof are delivered to the lenders or note purchasers:

- An independent neutral third party escrow holder is used for all deposits and disbursements. This safeguard specifically excludes real estate brokers from issuing construction or improvement loan disbursements and requires the use of joint control agents pursuant to Financial Code Section 17005.1;
- The loan must be fully funded up front with all loan proceeds deposited in an authorized escrow prior to recording the deed or deeds of trust;
- A comprehensive, clearly drafted and detailed "draw schedule" must be developed and included in the loan documentation to ensure proper and timely disbursements to allow for the completion of the construction, land development or building improvement project;
- The disbursement "draws" are to be based upon verification from an independent qualified person who certifies the work completed to the date of inspection meets the related building codes and construction standards, and that the "draws" were made in accordance with the construction, development or building improvement contract and "draw" schedule;
- The qualified person may not be an employee, agent, or affiliate of the real estate broker and is defined to be licensed architect, general contractor, structural engineer, or a local government building inspector acting in an official capacity;

  NOTE: *It is unlikely that a local government building inspector could or would provide the service required to meet this safeguard standard within the scope of his/her official capacity.*
- The appraisal is to be completed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) by an appropriately state licensed or certified appraiser. As required by USPAP, the appraisal report is to include "as is" and "as completed" values when the appraisal report is based upon a hypothetical condition, e.g., improvements to be constructed or a development to be accomplished in the future.

  NOTE: *This means that to finance a construction, development, or building improvement project without knowing in advance the form, type, quality, square footage, etc., of the improvements based upon plans, specifications, and estimated cost breakdowns and the prices of comparable improved properties in that marketplace would be inappropriate. This limitation would also apply to loans secured by raw land where subsequent loan disbursements are contemplated to fund the development project including, but not limited to, the acquisition of entitlements and the cost of preparation by a registered civil engineer or*

other design professionals of the tentative tract map, grading and site plans, and the design and location of roads and utilities.

- The transactional documents are to include a detailed description of the actions that may be taken in the event of a failure to complete the project, whether the failure is due to default, insufficiency of funds, or other causes; and
- The entire amount of the construction, development, or rehabilitation loan cannot exceed 2.5 million dollars.

The aforementioned amendments also expand the ability of a real estate broker to arrange transactions secured by more than one parcel of real property. When the loan being arranged by the real estate broker is intended to be secured by more than one parcel of real property, the multi-lender statute (as amended) requires safeguards be established and that the lenders or note purchasers receive disclosures regarding each of same as follows:

- The intended security properties are to be separately appraised and a current market value is to be established for each;
- Each intended security property is to be assigned a portion of the principal of the note or interest therein which may not exceed the percentage of the current market value statutorily established for the type of security property involved;
- The address, description and estimated current market value of each intended security property must be disclosed to each lender or note purchaser;
- The loan-to-value percentage for each intended security property, after the loan amount is proportioned, must be established and disclosed to each lender or note purchaser;
- The amount of available equity (the total equity as well as the equity allocated by each intended security property) after the principal amount has been proportioned to each intended security property must be established and disclosed to each lender or note purchaser;
- The use of the revised Lender/Purchaser Disclosure Statement forms promulgated by the Department of Real Estate are now required; and
- The real estate broker is to disclose any other information that may be material or essential to avoid misleading the lenders or note purchasers, i.e., all material loan terms and investment risks are to be disclosed.

Finally, in multi-lender transactions, the real estate broker must include a disclosure within each loan file describing whether the exemption from qualification and registration or the permit issued pursuant to qualification

and registration by the Department of Corporations upon which the broker is relying for the securities being issued in connection with the transaction.

4. Loan Servicing in Multi-Lender and in other than Multi-Lender Transactions.

Real estate brokers who service loans are required to provide certain disclosures to the lenders or note holders as well. Any such servicing on behalf of a borrower, lender or note holder must be done pursuant to a written authorization or servicing agreement. California law does not allow the advancing of funds by a broker for payments that should have been paid or tendered by the borrower without a securities permit from the Department of Corporations.

In the event that a borrower does not make a scheduled payment and the broker causes other funds to be applied to protect the security of the note or contract being serviced, including the debt service on a senior lien, the broker must give a written notice of the advance to the lender or note holder not later than 10 days after making such payment. Payments made by the broker from funds other than the borrower's; any promise by the broker to pay, or to guarantee the payments or the investment, or to ensure the rate of return on the investment are to occur only under a securities permit obtained from the Department of Corporations.

In multi-lender transactions, separate loan servicing by an authorized person or entity for that purpose must take place. Also, the servicing agreement is to provide that the lenders or note purchasers are to receive the funds to which they are entitled from borrower loan payments within 25 days of receipt of said payments by the servicing agent.

(CAL. BUS. & PROF. §§ 10231.2, 10232.4, 10232.5, 10232.6, 10233, 10233.1, 10237, 10238 et. seq.; CAL. CORP. § 25707; COMMISSIONER'S REGULATION 2846)

E. Notice of Transfer of Loan Servicing

Should a loan be secured by California real property containing 1 to 4 residential units, the entity servicing the loan is required to provide a written notice to the borrower whenever the servicing/collection function is transferred, even though the loan transaction was not subject to the Real Estate Settlement Procedures Act (RESPA). The notice must be delivered by first class mail before the borrower is obligated to redirect the payments. Transfer of the servicing/collection function to a trustee exercising a power of sale under a deed of trust or other applicable security instrument does not constitute a transfer of loan servicing under California law controlling the notice requirements described above.

NOTE: *Federal regulations have also been promulgated for notice of transfer of loan servicing and a notice to the borrower is now a requirement of RESPA.*

(CAL. CIV. § 2937; 12 U.S.C. §2601 et. seq.)

F. Notice of Borrower's or Lender's Right to Copy of Appraisal Report

A lender on a loan to be secured by residential real property must give the applicant (borrower) notice of the applicant's right, upon request, to receive a copy of the appraisal report, provided the applicant has paid for the appraisal or other valuation of the intended security property.

The lender must give this notice with the "good faith estimate" of loan charges required by the Real Estate Settlement Procedures Act (RESPA) and by California law. If the loan does not fall under the RESPA requirement, the lender must give the appraisal notice at the time of application or not later than 15 days after receipt of the application. The notice must be a separate document printed in not less than 10-point type. For non-residential property (i.e., other than 1 to 4 residential units), the notice is only required if the loan involves purchase money financing or a refinancing of purchase money debt.

If a real estate broker makes or arranges a loan in an amount less than $30,000 secured by a senior trust deed, or a loan of less than $20,000 secured by a junior trust deed, the broker must deliver a copy of the appraisal to both the borrower and the lender at or before the closing of the loan transaction. This requirement only depends on the borrower being charged a fee for the appraisal or other valuation of the improved security property. Finally, certain lenders and note purchasers are also entitled to receive copies of appraisal reports prepared in connection with intended security properties for loans being made or promissory noted being purchased.

(15 U.S.C. § 1691 et. seq.; CAL. BUS. & PROF. §§ 10238, 10232.4, 10232.5, 10238, 10241.3, 11423)

G. Credit Terms – Truth-in-Lending and Regulation Z

The Truth-in-Lending Act (TILA) is a federal law enacted to promote the informed use of consumer credit by requiring creditors/lenders to disclose various terms and conditions of credit. Regulation Z and the Official Staff Commentaries which interpret the Regulations are issued by the Board of Governors of the Federal Reserve System to implement TILA. The Federal Trade Commission enforces TILA and Regulation Z.

TILA requires a creditor to be responsible for furnishing certain disclosures to the consumer before making a contract for a loan. With respect to real estate loans, a "creditor" includes (among others) a person or company who regularly extends credit for loans secured by a dwelling, including a mobilehome or trailer (if used as a residence), and the credit extended is subject to a finance charge or is payable by written agreement in more than four installments, excluding the down payment. For the purposes of TILA, regularly extending credit is defined to mean five or more transactions per year. In the case of high-cost mortgages, the threshold is two or more per year if made directly by the creditor/lender, or one or more per year when the loan is made through a real estate broker performing as a mortgage broker.

Exemptions from TILA with respect to real estate loans include, among others:

- credit extended primarily for business, commercial, or agricultural purposes; or
- credit extended to other than a natural person, i.e., an entity.

Regulation Z requires that creditors make certain disclosures for real property secured loans. The first four disclosures must include simple descriptive phrases of explanation similar to those shown in italics, as follows:

- **Amount financed** – *The amount of credit provided to you or on your behalf (principal amount borrowed less prepaid finance charges includable)*;
- **Finance charge** – *The dollar amount the credit will cost you*;
- **Annual percentage rate** – *The cost of your credit as a yearly rate*;
- **Total of payments** – *The amount you will have paid when you have made all the scheduled payments*;
- **Payment schedule** – The number, amount, and timing of payments;
- **Identity of the creditor/ lender** – The name of the person or entity making the disclosure;
- **Itemization of the amount financed** – A statement that the consumer has a right to receive a written itemization and a space in the statement for the consumer to indicate whether the itemization is requested;
- **Variable interest rate and discounted variable rate loans** – Disclosures of the limitations and the effects of a rate increase and an example of payment terms resulting from the increase (may be

accomplished by giving the consumer the "*Consumer Handbook on Adjustable-Rate Mortgages*" or a suitable substitute, as defined);

- **Demand features of the loan** – When the creditor/lender may demand payment in full of the loan irrespective of any stated maturity date**,** excluding borrower default or the exercise of due-on-sale clauses;
- **Loan prepayment penalties** – Whether such penalties are charged by the creditor/lender or, if uncertainty exists, a statement to that effect and whether any prepaid finance charge is subject to rebate;
- **Late payment charge** –The amount of charge for delinquent payments stated either as a percentage or a dollar amount;
- **Description of the security interest** – The deed of trust or mortgage which will be retained by the creditor/lender as security for the loan;
- **Insurance** – Whether premiums for coverage are included in the finance charge;
- **Charges or fees to be excluded from the finance charge** – Certain security interest charges such as taxes or other fees paid to public entities, or the premium for insurance in lieu of perfecting the security interest (if subject to the Real Estate Settlement Procedures Act (RESPA), the required RESPA statement is a sufficient disclosure);
- **Specific terms of the contract** – Those terms related to nonpayment, default, acceleration, or prepayment penalties;
- **Due-on-sale clauses** – In applicable transactions, a statement that the loan is subject to acceleration upon sale or transfer of the security property or of other conditions about the loan assumption policy which are contained in the loan documents and a statement whether the creditor/lender will allow subsequent buyers to assume the remaining obligation; and
- **Required deposit balances by the borrower** – Whether, as a condition of the loan such balances are required and a statement that the annual percentage rate does or does not reflect such required deposit.

The right to rescind a real estate loan applies to most consumer credit transactions in which the creditor/lender will acquire or retain a security interest in the borrower's principal dwelling. The creditor/lender must provide each borrower who is entitled to rescind with a written notice of this right. The borrower has the right to rescind without penalty until midnight of the third business day (Sundays and federal holidays excluded) subsequent to completion of the following events, whichever occurs last:

- Consummation of the loan transaction;
- Delivery of all material truth-in-lending disclosures; or
- Delivery of the notice of the right to cancel.

Certain real estate loan transactions are exempt from rescission under Regulation Z, including a residential mortgage funded for the purpose of purchasing the intended security property; refinancing or consolidation by the same lender who currently holds the loan secured by the borrower's principal dwelling, provided no "new" money is advanced; any transaction in which a state agency is the creditor/lender; loans for vacant lots or vacation and retirement homes which are not the principal residence of the borrower; and a business-purpose line of credit even though secured by the borrower's dwelling.

- *15 U.S.C. § 1601, et. seq.; 12 C.F.R. PART 226 (REG. Z, TRUTH IN LENDING)*)

H. High Cost Loans (Federal)

The Truth-in-Lending Act (TILA) was amended in 1994 with respect to certain loans, other than purchase money loans, secured by the borrower's principal dwelling. In these "high rate/high cost loan transactions, also known as "Section 32" loans, further restrictions are placed on creditors/lenders, including additional disclosures and cancellation rights. The amendment defines a creditor/lender as someone who, in any 12-month period, originates more than one high-rate/high-cost loan, i.e., two or more. Also, ***any*** such loan (one or more) arranged by a real estate broker acting as a mortgage broker is subject to these requirements.

A "high-rate loan" is one in which the annual percentage rate (APR) exceeds by 10 points or more the yield on Treasury Securities having a similar term.

A high-rate loan is defined as:

- For a senior loan/mortgage, the APR exceeds by more than 8 percentage points the rates on Treasury Securities of comparable maturity;
- For a junior loan/mortgage, the APR exceeds by more than 10 percentage points the rates on Treasury Securities of comparable maturity.

A "high-cost loan" is one in which the total points and fees exceed the greater of 8% of the loan amount or, as of January 1, 2005, $510.00 (adjusted annually as of each January 1 thereafter based on the change in the applicable Consumer Price Index).

At least three business days before a high-rate OR high-cost loan is funded, the following disclosures must be made:

- The creditor/lender must provide a written notice stating that the loan need not be completed, even if the borrower has signed the loan application and received the required disclosures. The borrower has three business days to decide whether to sign the loan agreement after the borrower receives the special Section 32 disclosures;
- The notice must include a warning to the borrower that, he/she could lose his/her residence (the security property) and any money put into it, if payments are not made; and
- The lender must disclose the APR, the regular payment amount, any authorized balloon payment, and the loan amount (plus where the amount borrowed includes credit insurance premiums that fact must be stated). For variable rate loans, the lender must disclose that the rate and monthly payment may increase and state the amount of the maximum monthly payment and interest rate, as applicable.

These disclosures are in addition to the other TILA disclosures that must be provided no later than the closing of the loan or prior thereto as required by law.

(15 U.S.C. § 1601 et. seq.)

I. California High Cost Mortgage/Loan Disclosures

The California Financial Code defines certain high cost loans as "covered loans," which loans are subject to various requirements, restrictions, standards and penalties. A "covered loan" is one that does not exceed the most current conforming loan limit for a single-family first mortgage loan established by the Federal National Mortgage Association (FNMA) and which exceeds specified points, fees, and/or includes APRs that exceed a defined limit in comparison to Treasury Securities of a similar term as the contemplated loan.

For 2006, the conforming FNMA loan limit is set at $359,650 for loans/mortgages secured by single-family properties. This law adjusts the covered loan limits automatically to track with FNMA conforming loan limits.

The following are disclosures required in covered loan transactions:

- At least three business days prior to loan consummation, the loan originator (defined as either the lender or broker for this purpose) must disclose in writing to the borrower the terms of any lawfully allowed prepayment penalty and the rates, points, and fees for the "covered loan"

that would be charged as compared to the rates, points, and fees for accepting a "covered loan" ***without*** a prepayment penalty.

- A "covered loan" shall not contain a provision for negative amortization, unless the "covered loan" is a first (senior) mortgage. The loan originator must disclose to the borrower that the loan contains a negative amortization provision that may add principal to the balance of the loan.
- A "covered loan" shall not be made unless the following disclosure, written in 12-point font or larger, has been provided to the borrower no later than three business days prior to signing of the loan documents for the transaction:

CONSUMER CAUTION AND HOME OWNERSHIP
COUNSELING NOTICE

If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.

Mortgage loan rates and closing costs and fees vary based on many other factors, including your particular credit and financial circumstances, your earnings history, the loan-to-value requested, and the type of property that will secure your loan. Higher rates and fees may be justified depending on the individual circumstances of a particular consumer's application. You should shop around and compare loan rates and fees.

This particular loan may have a higher rate and total points and fees than other mortgage loans and is, or may be, subject to the additional disclosure and substantive protections under Division 1.6 (commencing with Section 4970 of the Financial Code. You should consider consulting a qualified independent credit counselor or other experienced financial adviser regarding the rate, fees, and provisions of this mortgage loan before you proceed. For information on contacting a qualified credit counselor, ask your lender or call the United States Department of Housing and Urban Development's counseling hotline at 1-888-466-3487 or go to **http://www.hud.gov/fha/sfh/hcc** for a list of counselors.

You are not required to complete any loan agreement merely because you have received these disclosures or have signed a loan application. If you proceed with this mortgage loan, you should also remember that you may face serious financial risks if you use this loan to pay off credit card debts and other debts in connection with this transaction and then subsequently incur significant new credit card charges or other debts. If you continue to accumulate debt after this loan is closed and then experience financial difficulties, you could lose your home and any equity you have in it if you do not meet your mortgage loan obligations.

Property taxes and homeowner's insurance are your responsibility. Not all lenders provide escrow services for these payments. You should ask your lender about these services.

Your payments on existing debts contribute to your credit ratings. You should not accept any advice to ignore your regular payments to your existing creditors.

- Upon request, the loan originator of a "covered loan" shall provide to its licensing agency or to the borrower, at no cost, documentation that clearly demonstrates whether the loan is a "covered loan." This documentation shall include, but not be limited to, full disclosure of the original principal balance, the annual percentage rate (APR), and the total point and fees, as defined in Financial Code Section 4970.

(CAL. FIN. § 4970 et. seq.)

J. Real Estate Settlement Procedures Act (RESPA)

The Real Estate Settlement Procedures Act (RESPA) is a federal law whose primary purpose is to help consumers become better shoppers for settlement services. RESPA requires that borrowers receive various disclosures regarding the proposed loan transaction. Some disclosures spell out the costs and expenses associated with the settlement or closing of the loan transaction. Others describe lender servicing and escrow account practices. RESPA also requires that borrowers receive disclosures about business relationships that may exist among lenders/creditors and settlement service providers. RESPA disclosures include:

- **Good Faith Estimate of Settlement Costs.** RESPA requires that the lender and the real estate broker acting as a mortgage broker (if present) each provide to the borrower their own good faith estimate of settlement service charges or of anticipated closing costs. In the case of a mortgage broker, the good faith estimate is to be issued with the mortgage loan disclosure statement (MLDS/GFE) previously described in Section III , Subsection C – California Required Disclosures to Borrowers. This estimate is to be given at the time of the lender's or mortgage broker's receipt of the borrower's loan application, and the estimate is to be mailed or otherwise delivered within the next three business days. The amounts listed on the Good Faith Estimate are only estimates and not a guarantee — actual fees, costs, and expenses may vary. However, as the name implies, the lender and mortgage broker must prepare and offer the estimates of the expected fees, costs, and expenses in good faith.
- **Servicing Disclosure Statement.** RESPA requires the lender or mortgage broker to provide a written disclosure as to whether he/she expects that someone else will be servicing the loan. Again, this disclosure is to be given at the time of the loan application or within three business days thereof.

- **Affiliated Business Arrangements.** Several businesses that offer settlement services may be owned or controlled by a common parent. These businesses are known as "affiliates." When a lender, a real estate broker, a real estate broker acting as a mortgage broker, or other participant in the settlement or loan escrow refers the borrower to an affiliate for a settlement service (e.g., a real estate broker refers a buyer to a mortgage broker affiliate), RESPA requires the referring party to give the borrower an Affiliated Business Arrangement Disclosure. This form states that the buyer/borrower is generally not required, with certain exceptions, to use the affiliate and is free to shop for other service providers. Affiliated business arrangements may also exist between creditors/lenders and settlement service providers and may include continuing business relationships arising from agreements between the parties.
- **HUD-1 Settlement Statement.** One business day before the settlement or the anticipated close of the loan escrow, the borrower has the right to inspect the proposed HUD-1 Settlement Statement. This statement itemizes the services provided and the fees charged and the costs and expenses imposed. This form is filled out by the settlement agent or the escrow holder who is conducting the settlement or the escrow. The fully completed and final HUD-1 Settlement Statement generally must be delivered or mailed to the borrower on or before the settlement or the close of the loan escrow. In cases where the principals of the settlement or of the escrow do not meet, the settlement or escrow agent will mail the HUD-1 statement after settlement or loan closing.
- **Escrow Account Operation and Disclosures.** At the settlement or loan closing or within the next 45 days, the loan servicer must give an initial escrow account statement. The form will show all of the payments which are expected to be deposited into the escrow account and all of the disbursements which are expected to be made from the escrow account during the year ahead. The lender or servicer will annually review the escrow account (a trust account maintained for the future payment of insurance premiums and property taxes) and send a disclosure each year which shows the prior year's activity and any adjustments necessary in the escrow payments that will be made in the forthcoming year.

RESPA prohibits any "kickbacks" or the payment of unearned fees to any person or entity (including a real estate broker) as compensation for referrals to any real estate settlement/escrow service provider. This includes non-cash inducement offers to brokers such as paid vacations. RESPA does not prohibit a lender or settlement service provider from offering an incentive to a borrower, provided that the incentive is not based on the borrower

referring business to the lender or service provider. Written agreements between real estate brokers to cooperate and share customary and reasonable commissions may be acceptable if limited to compensation for the sale transaction.

RESPA Regulations require that third parties providing settlement services in loan transactions subject to this law be reasonably compensated in relation to the value of the services rendered and of the goods and facilities provided. Generally, when a real estate broker receives customary and reasonably earned commissions/fees for services rendered and/or reimbursements for costs and expenses actually incurred, it would neither be in violation of RESPA nor California law as long as such commissions/fees, costs and expenses are fully disclosed. This includes any compensation the broker receives directly or indirectly from the lender as well as from the borrower.

The HUD-1 Settlement Statement must also show any direct or indirect payments by the lender to affiliated or independent settlement service providers. If payments are made outside of escrow, they must be shown as "P.O.C." (paid outside of closing) on the HUD-1 settlement statement. HUD/FHA is charged with the responsibility of enforcing RESPA, and their General Counsel's Office or their Enforcement Section should be contacted for further information and clarification.

(12 U. S.C. §. 2601 et. seq. - THE REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA); 24 C.F.R. PART 3500 – (REGULATION X – THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1992); CAL. BUS. & PROF. §§ 10240, 10176(a),(g))

K. Advance Disclosures in Loan Transactions Subject to TILA and RESPA

In addition to being subject to the Truth-in-Lending Act (TILA), senior and junior loan transactions for the financing of the initial purchase, construction/take-out, refinancing or further encumbering of owner and non-owner occupied residential property of 1 to 4 units may be also subject to the Real Estate Settlement Procedures Act (RESPA). Generally, loans to be secured by 1 to 4 residential units will be subject to either TILA or RESPA, or both, depending upon the facts of the situation. When such loans are subject to either TILA or RESPA, they are commonly termed as "Federally related."

Borrowers of loans subject to RESPA are typically entitled to receive a TILA disclosure from the creditor/lender concurrently with the RESPA Good Faith Estimate. The purpose of the early TILA disclosure and of the RESPA Good Faith Estimate is to give the borrower an opportunity to compare the loan terms being offered to the terms available from other

creditors/lenders. In such transactions, a real estate broker acting as a mortgage broker is to complete and timely deliver to the borrower the California required Mortgage Loan Disclosure Statement/Good Faith Estimate (MLDS/GFE).

TILA also includes detailed requirements for the advertising of consumer credit, including real estate loans, and TILA describes various acts which creditors/lenders are prohibited from performing.

(15 U. S.C. § 1601, et. seq.; 12 C.F.R. PART 226 et. seq.- (REG. Z, TRUTH IN LENDING))

L. Disclosure by Agent Receiving Compensation from a Lender

A real estate licensee who acts as the agent for either party in the sale, lease or exchange of real property, a mobilehome, or a business opportunity must disclose to both parties the form, amount, and source of any compensation received or expected to be received from a lender in connection with the securing of financing related to the transaction. The disclosure must be given to each party to the transaction before the transaction closes escrow. Real estate licensees must disclose to their principals all compensation or expected compensation, regardless of the form of the time of payment.

(COMMISSIONER'S REGULATION 2904 AND CAL. BUS. & PROF. § 10176(a), (g))

NOTE: *California Business and Professions Code Section 10177.4 prohibits certain referrals for compensation. A real estate licensee may not receive compensation for referring customers to any escrow agent, structural pest control firm, home protection company, title insurer, controlled escrow company, or underwritten title company. Further, receipt of such compensation from an employee of a title insurer, underwritten title company or controlled escrow company may constitute commercial bribery. See Penal Code Section 641.4.*

M. Adjustable Rate Loan Disclosure

A lender offering adjustable-rate residential mortgage loans must provide prospective borrowers with a copy of the most recent Federal Reserve Board publication which provides information on such loans. It is entitled "*Consumer Handbook on Adjustable-Rate Mortgages*" and is available at **http://www.hud.gov/cnsumgd.cfm**. The publication must be given at the earlier of:

• The request of the prospective borrower; or

• When the lender first provides information concerning adjustable-rate mortgages or credit sales, other than by direct mail advertising.

Federally regulated lenders and lenders who have adopted, entitled to adopt, or are otherwise subject to federal rules (alternative mortgage lenders) may achieve compliance by providing the disclosures at the same time and under the same circumstances when the lender/creditor makes federally required disclosures pursuant to the Truth-in-Lending Act (TILA).

Any lender who fails to provide the information required by this law may be enjoined and may be liable for actual damages, court costs and reasonable attorney's fees. Federal Truth-in-Lending disclosures made in connection with adjustable-rate loans should include the worst case and best case scenarios.

(12 U.S.C. § 3801 et. seq.; 12 C.F.R. PART 226 (REG. Z, TRUTH IN LENDING); 12 C.F.R. § 560.210; CAL. CIV. § 1921)

N. Equal Credit Opportunity Act – Notice of Adverse Action – Regulation B

The Equal Credit Opportunity Act makes it unlawful for any creditor to discriminate against any credit applicant with respect to any aspect of a credit transaction on the basis of race, color, religion, national origin or ancestry, sex, marital status, or age (provided the applicant has the capacity to contract). The law prohibits discrimination against applicants who receive income from a public assistance program or against an applicant who has exercised, in good faith, any right under the Consumer Credit Protection Act. In all cases, credit guidelines must be applied in a uniform manner.

A lender/creditor who denies an application for credit must provide the applicant with a statement of reasons or a written notification of the applicant's right to obtain a statement of reasons. The statement and notice of adverse action must generally be provided within 30 days after receiving the ***completed*** loan application. (In certain credit transactions, the notice period may be longer.) The notification and statement from the lender/creditor may be verbal if in the preceding calendar year the lender/creditor acted on less than l50 loan applications.

Adverse action includes a denial, revocation, or change in the terms of an existing credit arrangement and does not include a refusal to extend credit under an existing credit arrangement where the applicant is delinquent or otherwise in default. Nor does it include additional credit which would cause an extension of credit to exceed an established limit.

In addition to the foregoing federal law, state law regulates the issuance of consumer credit reports, access by the consumer to such reports, and the obligations of credit reporting agencies. Also, users of consumer credit reports are subject to the requirements of state law and must provide notice to the consumer when credit is denied.

(15 U.S.C. § 1691 et. seq.; 12 C.F.R. PART 202 et. seq. (REG. B); CAL. CIV. § 1785.1 et. seq.)

O. Certain Obligations of Consumer Credit Reporting Agencies

Since 2000 numerous amendments or additions to the Consumer Credit Reporting Law have been made by the California Legislature. Most of these changes have occurred as a result of growing incidences of credit and identity fraud and as a result of the adoption by various lenders/creditors of the use of credit scores as a means of measuring a consumer's credit history and to permit near instant evaluation of the credit risk presented by a particular consumer/borrower.

The term "credit score" is defined as "… a numerical value or a categorization derived from a statistical tool or modeling system used by a person who makes or arranges a loan to predict the likelihood of certain credit behaviors, including default. The numerical value of the categorization derived from this analysis may also be referred to as a "risk predictor" or "risk score." "Credit score" does not include any mortgage score or rating of an automated underwriting system that considers one or more factors in addition to credit information, including but not limited to, the loan-to-value ratio, the amount of down payment, or a consumer's financial assets. "Credit score" does not include other elements of the underwriting process or underwriting decisions.

To establish a consumer's "credit score," certain relevant elements or reasons are identified which are believed by the developers of this system to affect the "credit score" for the particular consumer/borrower. The elements or reasons are defined in the Civil Code as "key factors."

When a "credit score" has been issued on a particular individual or consumer and the consumer is an applicant for a home loan, the consumer is to receive the following notice:

NOTICE TO THE HOME LOAN APPLICANT

In connection with your application for a home loan, the lender must disclose to you the score that a credit bureau distributed to users and the lender used in connection with your home loan, and the key factors affecting your credit scores.

The credit score is a computer generated summary calculated at the time of the request and based on information a credit bureau or lender has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the lender in determining whether you will obtain a loan. They may also be used to determine what interest rate you may be offered on the mortgage. Credit scores can change over time, depending on your conduct, how your credit history and payment patterns change, and how credit scoring technologies change.

Because the score is based on information in your credit history, it is very important that you review the credit-related information that is being furnished to make sure it is accurate. Credit records may vary from one company to another.

If you have questions about your credit score or the credit information that is furnished to you, contact the credit bureau at the address and telephone number provided with this notice, or contact the lender, if the lender developed or generated the credit score. The credit bureau plays no part in the decision to take any action on the loan application and is unable to provide you with specific reasons for the decision on a loan application.

If you have questions concerning the terms of the loan, contact the lender.

In addition to the above notice, the individual or consumer is to receive, together with a copy of the credit report issued by a credit reporting agency, a list of the factors not to exceed four which have materially affected the outcome of the "credit score." The notice and the disclosure of the four factors affecting the "credit score" are to occur early in the loan process to allow the consumer to address any issues presented by the credit report or the "credit score," including the four factors about which the individual consumer may be in disagreement.

The individual or consumer is to be provided with the name and address and the website of the person or entity who developed the score or methodology of the score. In addition, the individual or consumer is to be provided with the name, address, website and other contact information for the credit repositories who maintain credit and financial information about each individual or consumer who issue their own form of credit score. These repositories are:

- EQUIFAX PO BOX 740241, ATLANTA, GA 30374-0241 1-800-525-6285 **www.equifax.com**
- EXPERIAN PO BOX 9532, ALLEN, TX 75013 1-888-397-3742 **www.experian.com**
- TRANSUNION PO BOX 6790, FULLERTON, CA 92864-6790 1-800-680-7289 **www.transunion.com**

As previously discussed, credit and identity fraud have become an epidemic in America and in California. In an effort to provide some protection to

consumers from the misuse of their credit standing, financial worthiness, and their identity, the California legislature has added to the Civil Code two procedures. The first is known as a "Security Alert" and is authorized by Civil Code Section 1785.11.1. This procedure allows a consumer to make a request in writing or by telephone to a consumer credit reporting agency to include an alert in the credit file to be included in any subsequent report issued on that consumer. Each recipient of a credit report issued on the consumer following the imposition in the file of the "Security Alert" will notify the recipients of the reports that the consumer's identity may have been used without the consumer's consent to fraudulently obtain goods and services in the consumer's name.

The second protection enacted by the legislature pursuant to Civil Code Section 1785.11.2 is a "Security Freeze" which may be placed on a consumer's credit report. The "Security Freeze" would prohibit the release to third parties of a credit report or other information about the consumer. A consumer may elect to place a "Security Freeze" on his or her credit report by making a request in writing by certified mail to a credit reporting agency, or directly to one or more of the credit repositories.

The result of the foregoing is a notice placed in a consumer's credit report that subject to certain exceptions would prohibit a consumer credit reporting agency from releasing a consumer's credit report or any information from the report without the express authorization of the consumer. Upon request, the credit repositories previously identified in this section will issue to the consumer a personal identification number (PIN) which must be used by the consumer when an authorized credit request has been made. The use of the PIN number will allow a credit reporting agency to lawfully issue a credit report, or information from the report, to a third party who may extending credit or making a loan to or arranging the loan for the consumer.

(CAL. CIV. § 1785.1, et. seq.)

P. Disclosure Required by the Housing Financial Discrimination Act of l977 (Holden Act)

Federal policy is to ensure fair housing by prohibiting discrimination based on race, color, religion, sex, national origin, marital status, age, or physical disabilities in connection with the sale, rental, construction, or financing of housing. To supplement federal legislation, state laws have been enacted to forbid the discriminatory practice known as "red-lining" that results in blanket refusals by some lenders to make loans in neighborhoods of declining property values.

The Holden Act prohibits the consideration of race, color, religion, sex, marital status, national origin, or ancestry in lending for the purchase,

construction, improvement, or rehabilitation of housing. Further, lenders cannot deny loan applications because of ethnic composition, conditions, characteristics, or expected trends in the neighborhood or geographic area surrounding the property. The Act encourages increased lending in neighborhoods where, in the past, financing has been unavailable. The major goal of the Act is to ensure and increase the supply of safe and decent housing for credit-worthy borrowers and to prevent neighborhood decay.

To ensure that prospective borrowers are aware of their rights under this law, lenders must notify all applicants of the provisions of the Holden Act at the time of the loan application. The notice must include the address where complaints may be filed and where information may be obtained. The notice must be in at least 10-point type and must be posted in a conspicuous location in the lender's place of business.

Any applicant seeking a real estate loan in connection with financing a personal residence (containing not more than four dwelling units) who believes he/she has been subjected to discrimination may file a complaint with the Secretary of the Business, Transportation and Housing Agency or his/her designee. The Secretary's decision will be final unless the applicant or lender requests a hearing.

(*CAL. HEALTH & SAFETY § 35800 et. seq.*)