



Serving Californians Since 1917

MORTGAGE LOAN BULLETIN

Arnold Schwarzenegger, Governor
Dale Bonner, Secretary, Business, Transportation and Housing Agency
Jeff Davi, Real Estate Commissioner

Spring 2007

Marketing to consumers

Over the past several years the DRE has published a number of articles addressing the subject of mortgage loan advertising. Some of these were meant to be informative and provide general compliance information and some were in response to specific consumer complaints. The purpose of these articles was to provide brokers with direction in the proper way of advertising their services and the loan products they sell.

As competition for business from fewer borrowers increases due to the slowdown in the purchase and refinance markets, the temptation to make a marketing piece stand out from the competition can increase. That temptation can lead to making statements or claims that are false, misleading or deceptive and simply cannot be supported. When that occurs, the DRE normally sees an increase in consumer complaints.

While any advertisement has the potential of containing misleading information or omitting information that would be important to the consumer, several types of advertising stand out among the worst:

1. Advertising negative amortizing loans

Advertisements for loans that contain provisions for possible negative amortization (deferred interest) are one of the sources of complaints to the DRE. The solicitations usually tout how consumers may drastically reduce or cut their monthly payments and save substantial sums of money. The inclusion of a payment amount in an advertisement is a “triggering term” that necessitates the inclusion of certain other information in an equally prominent manner as required by Commissioner’s Regulation 2848(5). Unfortunately, the ads seldom contain important information about the possible risks involved with these loans. The advertisements usually focus on the temporary savings that the consumer will have by making the minimum payment but fail to explain the negative impacts of the deferred interest (negative amortization) and the ultimate payment shock when the loan re-amortizes and fully amortized payments are required. Failure to include the required information can render the ad false, misleading or deceptive and constitute a material misrepresentation to the consumer. Brokers as fiduciaries have the responsibility to ensure their clients, and potential clients, are well informed of all of the advantages and risks involved in a transaction so the consumer can make an informed decision.

Continued on page 2

Communicating with consumers on nontraditional loans

When advertising, promoting or describing nontraditional mortgage products, licensees should give consumers important information that is designed to help them make informed decisions when selecting and using these products. Loans such as interest-only and payment option loans that allow borrowers to make interest only payments or defer interest contain complex terms that need to be clearly communicated from the time of marketing (see accompanying article) and throughout the loan process, not just when the loan is submitted for approval or when signing loan documents.

Licensees should give consumers information that will help them select those products that are appropriate for their needs and qualifications and choose among payment options. When advertising to and consulting with prospective borrowers on nontraditional mortgage products, licensees should offer clear, balanced and plain language product descriptions focusing on important features such as interest rates, payment shock, negative amortization, prepayment penalties, balloon payments, etc. Providing this information early on will serve as an important supplement to the Mortgage Loan Disclosure Statement provided by the broker and other disclosures provided by the lender.

Continued on page 6

MORTGAGE LOAN BULLETIN

Vol. 17 No. 1 Spring 2007

STATE OF CALIFORNIA
ARNOLD SCHWARZENEGGER
Governor

BUSINESS, TRANSPORTATION AND
HOUSING AGENCY
DALE BONNER
Secretary

DEPARTMENT OF REAL ESTATE
JEFF DAVI
Real Estate Commissioner

Principal Office

2201 Broadway
Sacramento, CA 95818

Mailing Address

P.O. Box 187000, Sacramento, CA
95818-7000

Telephone

(916) 227-0770

John R. Liberato
Chief Deputy Commissioner

Wayne Bell
Chief Counsel

Gary Sibner
*Managing Deputy Commissioner III
Mortgage Lending*

Sylvia Yrigollen
*Senior Deputy Commissioner
Mortgage Lending Advertising*

The *MORTGAGE LOAN BULLETIN* is published as an educational service to real estate licensees engaged in mortgage lending activities.

Reproduction, in whole or in part, is authorized with attribution to the Department of Real Estate.

DRE's Internet address is:
<http://www.dre.ca.gov>



Marketing

Continued from page 1

2. **Implying a loan is from a government or quasi-governmental agency**

Many advertisements we review create the impression that they are from a government agency or have a connection to or an endorsement from, a government or quasi-governmental agency. Some include fancy jargon or acronyms such as FannieMae, FreddieMac, FFIEC, HUD, CRA, FHA, etc., in a context that gives the impression that the mailer is from that agency or there is some connection to, or endorsement from, that agency. Some of these mailers include symbols that appear to be official or otherwise imply it is from a government agency. Some advertisements offer assistance to owners located in certain census tracts but do not specify that what they are selling is a refinance loan. While there are legitimate and beneficial programs that are available to brokers from government and quasi-government agencies, and from financial institutions who can provide loans to low and moderate income groups located in identified census tracts, an advertisement that falsely implies it is from a government agency is a violation of Commissioner's Regulation 2848(12) and Business and Professions Code Section 17533.6.

3. **Implying the advertisement is from the consumer's current lender**

Another type of advertisement that triggers complaints are those that are made to appear to be from a consumer's current lender and/or include information regarding the consumer's current loan. These mailers usually contain the name of the lender prominently in the advertisement and many times the name appears through the envelope window as an inducement to the consumer to open and read the piece. Many of our complaints come from financial institutions whose customers have been targeted. Complaints also come from consumers, many of them elderly, who actually do not even have a loan with the lender named in the advertisement, triggering fears of identity theft and other financial crimes. As of January 1, 2005, this type of advertising is prohibited unless there is a clear and conspicuous disclaimer made in a specified manner. The typical mice-type disclosures that are used are not sufficient. Since the law provides for certain types of ads that would not constitute a violation, brokers who wish to use this type of format should become very familiar with the provisions of Business and Professions Code Sections 14700 through 14704.

4. **Understating the true interest rate of a fixed rate mortgage**

Some advertisements, many of which appear in the "Mortgage Guide" sections of newspapers along with interest rates of other brokers, lenders and financial institutions, simply understate the interest rates of fixed rate mortgages. It's a fact that interest rates can change on a daily basis. When a broker is advertising a specific interest rate at a point in time, that claim must be reflective of the interest rate that was available from a lender on that date. Many of these "Mortgage Guides" have a disclaimer that the rates advertised are effective as of a specific date (the date that brokers provided the information to the publication). This is because the newspaper is not published for several days after the rates are provided. Additionally, many will require the advertiser to include a lock-in period for the stated interest rate. Some brokers, in order to gain an unfair advantage

Continued on page 3

Marketing

Continued from page 2

over the competition and make the phones ring, will simply advertise an interest rate that is not available or advertise an interest rate for a shorter lock-in knowing that interest rates change. When the DRE receives these complaints, the broker will be required to back up the claim with actual documentation from a lender.

5. Implying a fixed rate mortgage when it is not a fixed rate mortgage

With the huge smorgasbord of loans available in today's market it is easy for a consumer to become confused between a fixed rate mortgage and a fixed payment mortgage. Some advertisements for loans with fixed payment features and adjustable interest rates are worded or formatted to imply that the interest rate is fixed. Since these are adjustable rate loans, the advertised rates appear to be lower than a true fixed rate mortgage. If a consumer is misled into taking out such a loan, the results can be disastrous. While the payment can be fixed for the specified time, the interest rate can be increasing creating negative amortization. Since the payments will only be fixed for a period of time, eventually the consumer will be obligated to make the fully amortizing payment on a higher loan balance which they may not be able to afford.

6. Stating or implying zero fees

The DRE has long held that stating or implying that there are zero or no fees to be paid in a loan transaction is misleading. The consumer must pay fees in virtually all loan transactions regardless of whether the fees are paid in cash at closing, financed through an increased principal loan amount, or through a yield/spread premium generated by a higher interest rate or adjustable rate margin, etc. Advertising otherwise is misleading.

A note about license disclosures: the DRE continues to see many advertisements with no license disclosure or phrases such as "CADRE" or "Licensed by the DRE". Every mortgage loan advertisement must contain the license disclosure required by Commissioner's Regulation 2847.3. The two permissible versions are:

"Real Estate Broker – CA Dept of Real Estate"
and
"CA Dept of Real Estate – Real Estate Broker"

In addition the broker license identification number must be included. If a licensed corporation is doing the

advertising, the corporation's license number must be used.

When the DRE receives an advertising complaint against a licensee or finds an offending ad in a publication, our initial goal is to obtain compliance from the broker. The advertisement is reviewed and analyzed, and the broker is provided written notice of the violation(s). The broker is advised to stop distributing that, or similar, advertising and asked to acknowledge their understanding in writing. Should violations be noted in future advertising, the DRE can seek compliance through a Desist and Refrain Order and/or an Accusation to seek administrative discipline against the licensee(s).

Brokers do have the option of submitting their advertising to the DRE for approval. Business and Professions Code Section 10231.2 and Commissioner's Regulation 2847 provide a mechanism for brokers to submit their mortgage loan related advertising on a voluntary basis for approval. There is a review fee of \$40.00 per ad and reviews are completed within 15 calendar days. The form, "Mortgage Loan Advertising Submittal (RE 884)," is available on the Department's Web site at www.dre.ca.gov/mlbforms.htm. Typical advertisements submitted for approval include print ads, flyers, letters, and radio and television ads. Brokers should review Commissioner's Regulation 2847 and the form instructions prior to submitting their ads. The approvals are valid for five years.

Good, effective advertising can be a benefit to both brokers and consumers. It can educate consumers about the multitude of financing options available today, about the services that a mortgage broker can provide to navigate through all of those options, and can assist consumers in choosing the appropriate loan product for their circumstance. False, misleading or deceptive ads have the opposite effect. They can lure consumers into inappropriate loans, which can damage them financially for many years to come, and they also damage the reputation of all brokers who seek to deal with their customers honestly and fairly. Become familiar with the rules and regulations of advertising and perform a good service for both the consumer and yourself.

The subject of advertising as well as other mortgage loan compliance questions is covered in the "Mortgage Loan Broker Compliance Evaluation Manual" and "Mortgage Loan Broker Compliance Checklist" which are available in the Publications section of our Web site at www.dre.ca.gov. Licensees can also call the Mortgage Loan Activities Unit at (916) 227-0770 with their mortgage loan related questions. 

Residential mortgage loan report reminder

Reminder! Real estate brokers who are direct lenders in certain types of loan transactions are required, pursuant to Health and Safety Code §35815 and §35816, to report to the Department of Real Estate activities related to the number of applications received from, and number and dollar amount of loans made to, the public for home purchase and/or home improvement purposes. *If a real estate broker reports such lending activity to the U.S. Department of Housing and Urban Development (HUD) under the provisions of the federal Home Mortgage Disclosure Act (HMDA), it is NOT necessary for the real estate broker to report to the Department of Real Estate.*

2006 REPORTING CRITERIA FOR NONDEPOSITORY INSTITUTIONS

Please review the criteria from the HMDA Web site (www.ffiec.gov/hmda) to determine if you meet the federal reporting criteria. Use information and data from the preceding December 31 date when determining whether you meet the federal reporting criteria. The questions for a nondepository institution, listed in the box below, should be answered to determine if you should report Calendar

1. *Is the nondepository institution a for-profit lender?*
2. *In the preceding calendar year, did the institution's home purchase loan originations (including refinances of home purchase loans) equal or exceed 10 percent of its total loan originations, measured in dollars, or equal \$25 million or more?*
3. *Did the nondepository institution either: (a) have a home or branch office in a Metropolitan Statistical Area/Metropolitan Division (MSA/MD) on the preceding December 31, or (b) receive applications for, originate, or purchase 5 or more home purchase or home improvement loans on property located in an MSA/MD in the preceding calendar year?*
4. *Did the nondepository institution either: (a) have assets (when combined with the assets of any parent corporation) exceeding \$10 million on the preceding December 31, or (b) originate 100 or more home purchase loans (including refinances of home purchase loans) in the preceding calendar year?*

Year 2006 HMDA data in 2007.

If a nondepository institution responds ‘YES’ to question 1 above and ‘YES’ to at least one question in 2, and one question in 3, and one question in 4, then HMDA applies to the institution’s loan originations, purchases, and applications in the current calendar year. A negative response to question 1, or to all the questions in 2, 3, or 4, exempts the institution from filing HMDA data for the current calendar year.

For nondepository institutions, a branch office is any office of the institution that takes applications from the public for home purchase or home improvement loans. It does not include offices of affiliates or other third parties such as loan brokers.

If you are a lender and do not meet the HMDA reporting criteria, please review the following:

The State of California Residential Mortgage Loan Report (RE 857) must be submitted to the DRE by all real estate brokers whose assets total \$10 million or less and who regularly make real estate purchase and/or home improvement loans. “Regularly” is defined to mean twelve or more transactions annually during the immediately preceding calendar year that, in aggregate, total more than \$500,000. **Licensees who only broker, and do not make, loans are not required to report.**

Mortgage lending data is to be collected annually and reported on the RE 857 by March 31 of the following year. The form and instructions are available on the DRE Web site www.dre.ca.gov/mlbforms.htm. If you qualify to file the Residential Mortgage Loan Report for calendar year 2006 and have not yet done so, or if you have any questions, please contact the Sacramento Mortgage Loan Activities Unit of DRE at (916) 227-0770. 

An analysis of a typical option ARM

Buyers dreaming of homeownership, owners wanting to refinance and capture equity or reduce their interest rates often shop for loans by looking for the program that has the lowest payment. In the past several years increasing numbers of these borrowers have chosen payment option adjustable rate mortgages (ARMs) to either purchase a home thought unaffordable or to refinance and limit their monthly debt service.

The large number of these loans that are now on the books and the gradual but steady increase in interest rates from the lows in 2003 has caught the attention of the national media, Federal Reserve and banking regulators. The concerns over rising interest rates, the slowing of the housing market and the potential financial impact of these loans on consumers is real. The payment option ARM typically allows the borrower to make payments, at their option, based on a 1% interest rate, interest only, with a 15-year or 30-year amortization, but there are many variations. If these loans are sold to consumers based on claims of payment savings or housing affordability, then it can be assumed that many, if not most, consumers will choose the lowest payment option.

We have analyzed the impact on a consumer who takes a \$300,000 payment option ARM and makes the minimum payments of \$965.00 per month. The analysis is based on an actual adjustable rate note from a national lender. The note provides for first year payments based on a 1% interest rate, annual payment increases of no more than 7 ½% of

the previous payment for 5 years after which full payments must be made to amortize the loan over the remaining term. Interest is adjustable monthly beginning after the first month based on the Twelve-Month Average of monthly yields on actively traded United States Treasury Securities adjusted to a constant maturity of one year as published by the Federal Reserve Statistical Release entitled "Selected Interest Rates (h-15)," otherwise known as the MTA. The margin is 3.10. Maximum deferred interest (negative amortization) is 115% of the original principal balance. There is no cap on the monthly rate increases and the life cap is 9.95%. As of the date this article was written, the index value for the Monthly Treasury Average was 4.88 making the fully indexed interest rate 8.0% afterrounding. Let's assume that there are no increases in the index for the first 5 years (a very conservative and unrealistic assumption). The loan term is 360 months.

After year one the balance has increased, because of negative amortization, from the original \$300,000 to \$312,814; after year 2, \$325,787; and after year 3, \$338,861. After the 43rd month, the deferred interest maximum is met (\$345,328). Since there have been payment increases of 7 ½% each year, the monthly payment of \$1,199.00 after year 3, would increase to \$2,604.00 per month (the fully amortizing payment over the remaining 317 months) - an increase of \$1,405.00 monthly barring any interest rate increases for the life of the loan. Considering that the 1-year Treasury Security index value has increased almost 400% since January 2004, even though interest rate increases have slowed recently, the likelihood that this loan would achieve its maximum interest rate of 9.95% is very good. If that were the case after 43 months, the monthly payments would have ballooned to \$3,063, a 317% increase from the original payment of \$965.00 per month.

Unless the borrowers have planned for the payment increases by either expected increases in income, setting aside all or part of the monthly payment differentials, or some other financial plan to meet the increased debt service, the financial impact could be severe. Couple that with the slowing of the housing market with values either leveling off or decreasing in some markets, the consumer who failed to plan could be forced into selling the home, possibly using a short sale if the loan balance exceeded the sales price, or even foreclosure. Some of these loans that closed in the last three to four years may soon be reaching their maximum allowed balances.

That is why it is incumbent upon brokers and salespeople to completely detail the terms of these loans both in their advertising and when consulting with consumers and discussing different loan options. That includes an explanation of the rates at which interest can accrue and the effects of deferred interest. Licensees who sell these programs based on their benefits (i.e., low payment options), must also explain the risks involved and help their clients determine if such a program is right for them or not. Payment option, interest only and other such ARM loan products may not be right for every consumer, especially those who are trying to afford a home for which they may not otherwise qualify. Those who are refinancing in order to lower their interest rates and payments could end up with higher rates and higher payments over time.

The terms of these loans are laid out in the small print of adjustable rate note, addendums and disclosures. While it is incumbent on borrowers to read these documents, the details can be daunting. There are many variations of these loans on the market today. It is the fiduciary duty of each licensee to completely explain the terms and discuss relative merits and risks of these loan products well before the point of signing loan documents. 



Covered loans and HELOCs

Loans that are covered under Financial Code Section 4970, et seq. (Covered Loans), sometimes called “high rate/high fee loans”, are subject to certain prohibitions, restrictions and other rules. The law was implemented through Assembly Bills 489 and 344, which became operative July 1, 2002. Some of these rules offer protections to consumers in regards to prepayment penalties, balloon payments, default rates, negative amortization, advance payments, etc. The law applies to loans with high annual percentage rates and/or fees, as defined in Section 4970, subsections (a) through (d), that are secured by a borrower’s one to four unit property that is or intended to be the principal dwelling, and the loan amount is no more than the current FannieMae single-family conforming loan limit (currently \$417,000). One of the exemptions from the provisions of the law are open equity lines of credit as defined in Part 226 of Title 12 of the Code of Federal Regulations (Regulation Z), commonly called Home Equity Lines of Credit or HELOCs (Financial Code Section 4970[d]). While arranging or making a high rate/high fee home equity line of credit is not unlawful, Financial Code Section 4973(m) states in pertinent part “A person who originates a covered loan shall not avoid, or attempt to avoid, the application of this division by doing the following.....(1) structuring a loan as an open-end credit plan for the purpose of evading the provisions of this division when the loan would have been a covered loan if the loan had been structured as a closed end loan”.

As part of its Enforcement and Audit programs, the Department reviews loan transaction files for compliance with this law. There are several areas of concern when we find loans that would have been “covered

loans” except that they were written as HELOCs. One concern is whether the borrower has been steered into that product by the broker in order to avoid complying with the provisions of the statute. There may be cases where other “covered” products available from the broker would have contained better terms and greater protections for the borrower than the HELOC, or where the broker does not even offer any other product that would be covered and only arranges or makes HELOCs that would otherwise be



covered. In those cases where borrowers have been steered to or the broker writes only HELOCs to evade the law, the DRE will pursue disciplinary action for a violation of Section 4973(m)(1).

Another concern is where HELOCs are arranged for, or sold to, private lenders or investors. These loans, as with any other loans, must be fully funded in order that the full amount of the loan is made available to the borrower. In cases where the private lender or investor has funded and been given an undivided interest in the promissory note and deed of trust for a *partial amount* of the loan, and the broker has named himself or herself (or their licensed corporation) as beneficiary for the remaining unfunded balance, then a violation of Business and Professions Code Section 10234 would have occurred. Another concern about partial funding of

HELOCs regards the potential failure of the broker or other investor(s) to be willing or able to perform on a request of the borrower to make authorized draws of the remaining funds. By its terms, a HELOC gives the borrower the right to draw down the credit line to its maximum limit unless otherwise specifically addressed in the note, such as in a circumstance where the borrower is in default. Those cases of partial funding may constitute material misrepresentations where the borrower relied on the terms of the note and/or the statements or representations from the broker that the funds would be available in the future.

Brokers should review their practices of arranging or making these types of loans. Financial Code Section 4970, et seq. was passed into law to offer additional protections to consumers who, sometimes out of necessity, must apply for owner-occupied real estate loans that carry high interest rates and/or fees. As a fiduciary of the borrower, it is the broker’s responsibility to discuss all possible loan options and inform the borrower of the advantages and disadvantages of each. Brokers who structure, or attempt to structure, loans as HELOCs in order to avoid giving these protections are subject to the DRE pursuing disciplinary actions against their licenses. 

Communication

Continued from page 1

Communicating all of the terms, costs and expenses from the beginning in every loan transaction is essential but becomes even more critical when helping consumers sift through the menagerie of available nontraditional loan products and select the one that best meets their needs, qualifications and ability to make the payments over the term of the loan. 

Direct lender notification reminder

The lender notification that became an annual requirement as of January 1, 2005 is again due from direct lenders who meet specific criteria.

The criteria, excerpted from Business and Professions Code Section 10131.8, are as follows:

(a) A real estate broker who acts pursuant to subdivision (d) of Section 10131 and who meets all of the following requirements shall notify the department annually in writing on a form that is acceptable to the commissioner:

(1) The real estate broker is an approved lender for the Federal Housing Administration, Veterans Administration, Farmers Home Administration, Government National Mortgage Association, Federal National Mortgage Administration, or the Federal Home Loan Mortgage Corporation.

(2) The real estate broker makes residential mortgage loans to a loan applicant for a residential mortgage loan by using or advancing the broker's own funds, or by making a commitment to advance the broker's own funds.

(3) The real estate broker makes the credit decision in the loan transaction.

(4) The real estate broker at all times maintains a tangible net worth, computed in accordance with generally accepted accounting standards, of a minimum of two hundred fifty thousand dollars (\$250,000).

(b) As used in paragraph (2) of subdivision (a), "own funds" means (1) cash, corporate capital, or credit lines at commercial banks, savings banks, savings and loan associations, industrial loan companies, or other sources that are liability items on the real estate broker's financial statements, whether secured or unsecured, or (2) cash, corporate capital, or warehouse credit lines at commercial banks, savings banks, savings and loan associations, industrial loan companies, or other sources that are liability items on the financial statements of an affiliate of the real estate broker, whether secured or unsecured. "Own funds" does not include funds provided by a third party to fund a loan on condition that the third party will subsequently purchase or accept an assignment of the loan.

If you are a lender that meets **all** of the above criteria, you were required to file the notice with the DRE no later than March 31, 2007 stating whether it is your initial notification or your annual notification. If you are a lender that previously met the above criteria but no longer do, please file the notification stating you no longer meet the criteria. The Residential Mortgage Lender Notification (RE 859) form is available on the DRE Web site www.dre.ca.gov/mlbforms.htm.

Please note that this notice is separate from, and should not be confused with, the report entitled "Residential Mortgage Loan Report" for which there is also a reminder in this Bulletin. Questions regarding this or any other mortgage loan compliance issue should be directed to the DRE Mortgage Loan Activities Unit at (916) 227-0770. 

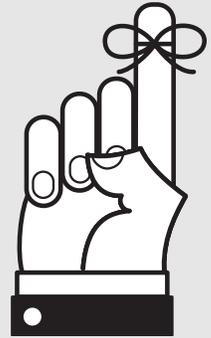
STATE OF CALIFORNIA RESIDENTIAL MORTGAGE LENDER NOTIFICATION (RE 859)		DEPARTMENT OF REAL ESTATE MORTGAGE LENDING
<p>INSTRUCTIONS & REPORT INFORMATION</p> <p>Use this form to notify the Department of Real Estate when a broker or corporation meets all of the criteria of Section 10131.8, or when a broker or corporation no longer meets all of the criteria of Section 10131.8.</p> <p>Section 10131.8, as amended, requires that a real estate broker or corporation notify the Department of Real Estate of its compliance status with the criteria of Section 10131.8, as amended, on or before March 31 of each calendar year.</p> <p>Section 10131.8, as amended, requires that a real estate broker or corporation notify the Department of Real Estate of its compliance status with the criteria of Section 10131.8, as amended, on or before March 31 of each calendar year.</p>		
<p>PART A - LICENSE INFORMATION</p> <p>1. License number of corporation: _____</p> <p>2. License number of broker: _____</p> <p>3. Date of last renewal: _____</p> <p>4. Branch office address (if applicable): _____</p>		
<p>PART B - MEETS CRITERIA OF SECTION 10131.8</p> <p>1. The real estate broker is an approved lender for the Federal Housing Administration, Veterans Administration, Farmers Home Administration, Government National Mortgage Association, Federal National Mortgage Administration, or the Federal Home Loan Mortgage Corporation and: <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>2. The real estate broker makes residential mortgage loans to a loan applicant for a residential mortgage loan by using or advancing the broker's own funds, or by making a commitment to advance the broker's own funds: <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>3. The real estate broker makes the credit decision in the loan transaction: <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>4. The real estate broker at all times maintains a tangible net worth, computed in accordance with generally accepted accounting standards, of a minimum of two hundred and fifty thousand dollars (\$250,000): <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>5. The real estate broker maintains a tangible net worth, computed in accordance with generally accepted accounting standards, of a minimum of two hundred and fifty thousand dollars (\$250,000): <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>6. The real estate broker maintains a tangible net worth, computed in accordance with generally accepted accounting standards, of a minimum of two hundred and fifty thousand dollars (\$250,000): <input type="checkbox"/> YES <input type="checkbox"/> NO</p>		
<p>PART C - NO LONGER MEETS CRITERIA</p> <p>1. The real estate broker no longer meets all of the criteria of Section 10131.8, as amended: <input type="checkbox"/> YES <input type="checkbox"/> NO</p> <p>2. The real estate broker no longer meets all of the criteria of Section 10131.8, as amended: <input type="checkbox"/> YES <input type="checkbox"/> NO</p>		

Important licensing notices

✓ **REMINDER! NEW MANDATORY COURSE — RISK MANAGEMENT**

Assembly Bill 223 (AB223), sponsored by the California Association of Realtors®, expands the mandatory continuing education requirements by adding a 3-hour course in *Risk Management*. All licensees renewing on or after July 1, 2007 will be required to complete a DRE-approved 3-hour continuing education course in *Risk Management*. The 6-hour Combined Survey Course has been expanded to 8 hours to incorporate *Risk Management* into the course materials.

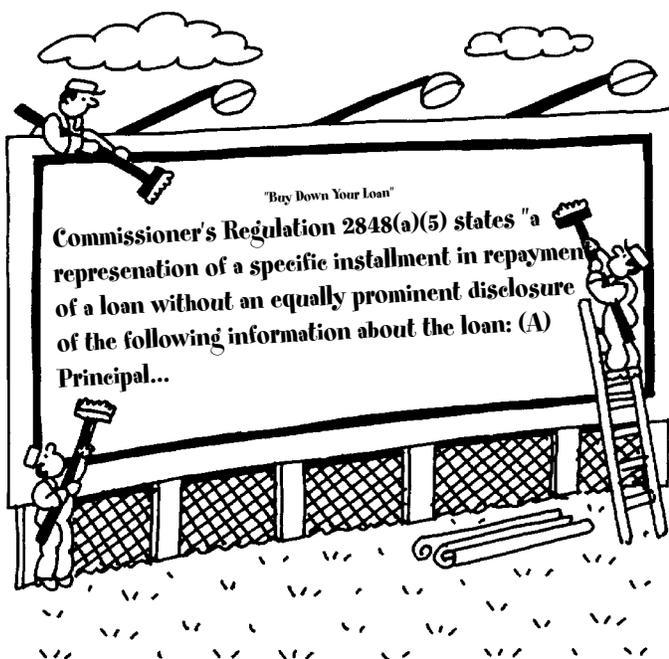
Licensees may not satisfy the *Risk Management* continuing education requirement with an 8-hour Combined Survey Course until it is their second or subsequent renewal after July 1, 2007. In other words, all licensees must complete an individual 3-hour course in *Risk Management* the first time they renew on or after July 1, 2007. Thereafter, licensees may use the 8-hour Combined Survey Course to satisfy the *Risk Management* requirement when they renew. 



✓ **REPEAL OF 18-MONTH CONDITIONAL LICENSE**

Existing law authorizes DRE to issue, under specified conditions, an 18-month conditional real estate salesperson's license to persons who have successfully completed a college level course in real estate principles and passed the real estate salesperson's license examination.

Effective October 1, 2007, Assembly Bill 2429 (AB2429), sponsored by the California Association of Realtors®, repeals the DRE's authority to issue a conditional license, thus effectively mandating that all real estate salesperson license applicants complete three college level courses, including real estate principles, real estate practice and one elective as specified, prior to sitting for the real estate salesperson's license examination. 



On the lighter side...

The Mortgage Loan Activities Unit received a telephone call from a salesperson working for a broker with an advertising question. He wanted to place lawn signs on properties that were listed for sale advertising a loan buy-down program along with the payment. He wanted to know if it was OK if the sellers allow the signs. We informed him of the extensive information that would be required by Commissioner's Regulation 2848(a)(5) when a payment is represented in an advertisement. He was also advised that due to the unusual nature of the request, his broker should obtain the DRE's approval by submitting the form RE 884, "Mortgage Loan Advertising Submittal," along with the \$40 fee and a rendering of the proposed sign before using them. After looking at the regulation he said, "How can I do that on just a little lawn sign?" He was advised, "It will need to be a big sign, a very big sign." 