

CALIFORNIA HIGH-COST RECAP

What loans are subject to rule:

A consumer-purpose transaction secured by the borrower's primary residence with a loan amount not exceeding the current FNMA loan limit. HELOCs and bridge loans are excluded.

Fees included:

All APR fees and creditor compensation are included in the points and fees test. If fees exceed 6% of the total loan amount, then the loan is a high-cost transaction.

APR threshold test:

The APR is compared against the US Treasury Yield as of the 15th day of the month immediately preceding the month of closing to determine if the loan is a high-cost. Regardless of lien position, the loan is a high-cost if the APR is more than 8% over the comparable US Treasury Yield.

Additional limitations:

- No call provision
- No balloon payment of 5 years or less
- No negative amortization unless lender discloses separately to borrower
- No increased interest rate after default
- No Prepayment Penalty (unless lender offered loan without a prepayment penalty, and then only for 36 months plus other conditions)
- No advance payments from proceeds
- Lender must take borrower's ability to repay into account on making covered loan
- No payments to home improvement contractor unless signed and dated completion certificate for improvements is provided and the payment is payable to the borrower or jointly to the borrower and the contractor; at the election of the borrower, through a third-party escrow agent in accordance with a written agreement signed by the borrower, creditor, and contractor prior to disbursement
- Covered loan must have tangible benefit for consumer.
- Lender must not encourage default on existing loan in anticipation of covered loan closing.
- Steering consumer to high-risk product when customer would qualify for more favorable loan terms is prohibited.

Disclosures required:

The Consumer Caution and Homeownership Counseling Notice must be provided at least three business days prior to closing. This is Doc ID 4939 in PPDocs, Inc.'s document library.

If a prepayment penalty will be included in the high-cost loan terms, the Prepayment Penalty Disclosure (Doc ID 5126 in PPDocs, Inc.'s document library) must be provided at least three business days prior to closing.

Negative Amortization Disclosure (Doc ID 3082 in PPDocs, Inc.'s document library) must be provided at closing to borrower if applicable on first-lien transaction.

Underlying Regulation: [CA Financial Code Section 4970](#)

https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=FIN&division=1.7.&title=&part=&chapter=1.&article