

Senate Bill No. 1326

CHAPTER 925

An act to add Section 2955.1 to the Civil Code, relating to secured obligations, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor October 14, 1995. Filed
with Secretary of State October 16, 1995.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1326, Petris. Secured obligations: common interest developments.

Existing law sets forth the Davis-Stirling Common Interest Development Act governing condominiums and similar real property developments, as specified. Existing law also regulates obligations secured by interests in real property as specified.

This bill would require any lender who originates a loan secured by the borrower's separate interest in a condominium project which requires earthquake insurance or imposes a fee or any other condition in lieu thereof, pursuant to an underwriting requirement imposed by an institutional 3rd party purchaser, to disclose to the potential borrower that earthquake insurance or that fee or other condition will be required by the lender or by the institutional 3rd party to whom the note is sold; that not all lenders or institutional 3rd parties to whom the note may be sold require earthquake insurance or that fee or other condition in lieu thereof; that earthquake insurance may be required on the entire condominium project; and that lenders or institutional 3rd parties may also require that a condominium project maintain, or demonstrate an ability to maintain, financial reserves in the amount of the earthquake insurance deductible.

The bill would declare that it is to take effect immediately as an urgency statute.

The people of the State of California do enact as follows:

SECTION 1. Section 2955.1 is added to the Civil Code, to read:

2955.1. (a) Any lender originating a loan secured by the borrower's separate interest in a condominium project, as defined in subdivision (f) of Section 1351, which requires earthquake insurance or imposes a fee or any other condition in lieu thereof pursuant to an underwriting requirement imposed by an institutional third-party purchaser shall disclose all of the following to the potential borrower:

(1) That the lender or the institutional third party in question requires earthquake insurance or imposes a fee or any other condition in lieu thereof pursuant to an underwriting requirement imposed by an institutional third party purchaser.

(2) That not all lenders or institutional third parties require earthquake insurance or impose a fee or any other condition in lieu thereof pursuant to an underwriting requirement imposed by an institutional third party purchaser.

(3) Earthquake insurance may be required on the entire condominium project.

(4) That lenders or institutional third parties may also require that a condominium project maintain, or demonstrate an ability to maintain, financial reserves in the amount of the earthquake insurance deductible.

(b) For the purposes of this section, "institutional third party" means the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, and other substantially similar institutions, whether public or private.

(c) The disclosure required by this section shall be made in writing by the lender as soon as reasonably practicable.

SEC. 2. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

The Legislature finds and declares that an institutional third party purchaser has imposed a new requirement on California lenders, which will become effective on or before July 1, 1995. Homebuyers and sellers need to be informed of their options concerning the new requirement as soon as possible to determine what options are available when the new requirement becomes operative.

