
NEWS RELEASE

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COMMISSIONER OF BANKS

RELEASE:	IMMEDIATE	DATE:	July 17, 2007
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N.C. Office of the Commissioner of Banks Adopts Statement on Subprime Mortgage Lending

RALEIGH—Commissioner of Banks Joseph A. Smith, Jr. today announced North Carolina's adoption of national regulatory guidance on subprime mortgage loans. This guidance is intended to instruct mortgage lenders and brokers on underwriting standards, management practices, and consumer protection provisions when marketing and selling certain adjustable-rate mortgage (ARM) products to borrowers in the subprime market.

"Subprime loans should promote sustainable homeownership," said Deputy Commissioner of Banks Mark Pearce. "This guidance addresses many practices that have led to unaffordable home loans and mortgage fraud."

Among other things, the statement identifies that:

- Lenders should make loans to avoid "payment shock" to borrowers by underwriting adjustable-rate loans at the "fully-indexed" rate, not the teaser rate;
- Lenders should verify a borrower's income for most subprime adjustable rate loans to reduce potential for mortgage fraud, and should inform borrowers of any additional costs for loans that do not verify income;
- Lenders should inform borrowers in subprime loans of need to pay real estate taxes and homeowners' insurance, if not included in the loan payment; and
- Lenders should inform borrowers in subprime loans of any prepayment penalties that may be charged.

The statement was developed by the Conference of State Bank Supervisors (CSBS), the American Association of Residential Mortgage Regulators (AARMR), and the National Association of Consumer Credit Administrators (NACCA) in response to the federal financial regulatory agencies' Statement on Subprime Mortgage Lending that was released on June 29. CSBS, AARMR, and NACCA developed the statement to apply to lenders not regulated by the federal financial regulatory agencies.

The CSBS/AARMR/NACCA guidance substantially mirrors the federal interagency statement agreed upon by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration, and supported by the FFIEC's State Liaison Committee.

However, the state mortgage regulators modified the statement to address issues particular to non-depository mortgage lenders and brokers who originate loans but do not hold them in portfolio. These lenders are generally licensed and regulated by the states.

In conjunction with the 2006 Interagency Guidance on Nontraditional Mortgage Product Risks, the statement offers sound underwriting and consumer protection principles that institutions and all residential mortgage providers should consider when making residential mortgage loans.

Beyond the Statement on Subprime Mortgage Lending, state regulators also plan to issue Examination Guidance for state supervisors to use in evaluating state-licensed mortgage lenders' compliance with the new requirements on lending to borrowers in the subprime market.

The N.C. Office of the Commissioner of Banks currently regulates more than 1,500 mortgage companies and more than 13,000 loan officers. NCCOB also regulates state banks, thrift institutions, nondepository trust companies, and other financial services firms operating in North Carolina, such as check cashers, consumer finance companies, money transmitters, and refund anticipation loan facilitators.

The Statement on Subprime Mortgage Lending is available on NCCOB's website at <http://www.nccob.org/NR/rdonlyres/D67770AD-CE04-41AB-814A-524EDBA42FA9/0/Subprimestatement.pdf>.

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