

NEWS RELEASE

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COMMISSIONER OF BANKS**

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National Mortgage Lender Makes Major Business Changes and Refunds \$4.7 Million to North Carolina Homeowners to Settle Allegations of Misconduct

RALEIGH— The N.C. Office of the Commissioner of Banks (NCCOB) announced, in conjunction with the Attorney General, that WR Starkey Mortgage, LLP (Starkey), has agreed to pay \$26,000 to each of 171 homeowners victimized as part of a scheme related to the sale and financing of overpriced manufactured and modular homes sold by Phoenix Housing Group, Inc. (PHG). In addition to this \$4.4 million, Starkey has undertaken major changes to its management and operation, provided nearly \$300,000 in additional refunds to other North Carolina borrowers for alleged violations of law, and has made a \$361,000 contribution to the State Home Foreclosure Prevention Project to support efforts to assist struggling homeowners in avoiding foreclosure.

“This settlement shows that lenders supporting and benefiting from fraud will pay a steep price,” said Mark Pearce, Chief Deputy Commissioner of Banks. “Equally important as Starkey’s willingness to make amends to homeowners caught up in this scheme is Starkey’s transformation in its operations and controls to ensure that borrowers are treated right.”

Among the corporate changes announced in this agreement:

- The chairman and CEO of Starkey has resigned;
- Starkey removed its president;
- Starkey hired outside counsel to serve as a compliance watchdog for the company, as Starkey conducts its search for a new head of its compliance department; and
- Starkey hired a new head of quality control, increased staffing in quality control and underwriting, changed manual and automated control systems to prevent unlicensed loan origination activity, and has conducted multiple announced and unannounced audits of branches.

As a result of an examination of Starkey, NCCOB alleged that Starkey had numerous violations of North Carolina law, which include:

- Collaborating with PHG to provide financing for consumers purchasing inflated manufactured and modular homes through PHG employees without proper mortgage licenses and without complete supervision and control by Starkey’s management;
- Certain Starkey employees or agents placed inaccurate, positive rental histories on consumers’ credit reports to boost the consumers’ credit worthiness to qualify consumers for loans they would not have qualified for otherwise;
- A certain Starkey loan underwriter instructed a loan processor, who was processing the PHG loans, on how to submit information for underwriting to ensure that consumers would qualify for loans when the consumers would not have otherwise qualified for the loans;

- Extending credit to consumers without due regard to the consumers' ability to repay the loans; and
- Adding discount points to mortgages when the same were not knowingly and voluntarily elected by Starkey's borrowers and when such points did not result in a bona fide reduction in the interest rate on the borrowers' mortgages.

Starkey has neither admitted nor denied these allegations.

NCCOB worked in collaboration with the N.C. Department of Justice, the Federal Bureau of Investigation, the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, the U.S. Postal Service, and the U.S. Attorney's Office on this matter. NCCOB is especially appreciative to the Attorney General and his staff for the close partnership in this effort. Investigation and enforcement efforts against PHG for its role in this scheme are on-going.

The N.C. Department of Justice will send letters to homeowners who purchased manufactured and modular homes from PHG and are eligible for the \$26,000 refund from Starkey. Other refunds being issued pursuant to the NCCOB settlement will be sent by mail to affected borrowers within 30 days.

In addition to other remedies, Starkey has agreed to pay \$150,000 to the NCCOB for attorneys' fees, costs, education and enforcement.

Starkey is headquartered in Plano, Texas, and does business in thirteen states. Starkey continues to do business in North Carolina as a licensed mortgage lender with N.C. branches located in Charlotte, Cornelius, Greensboro, Hickory, Mooresville, Lenoir, Matthews, Raleigh, Salisbury, and Winston-Salem.

The Settlement Agreement and Consent Order are available at:
<https://www.nccob.org/Online/NMLS/CommissionOrderListing.aspx>.

NCCOB regulates state-chartered banks, savings and loans, trust companies, and more than 600 mortgage lenders/servicers/brokers and 6,800 loan officers, as well as numerous consumer finance companies, check-cashers, and other financial services. NCCOB is funded by industry fees and assessments and not taxpayer dollars.

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