

NEWS RELEASE

**JOSEPH A. SMITH, JR.
COMMISSIONER OF BANKS**

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**Mortgage Broker/Lender Accused of Violating Licensing Laws
Agrees to Pay \$848,000 in Settlement with Commissioner of Banks**

RALEIGH— A mortgage broker/lender has agreed to pay \$848,000 to settle allegations of poor supervision and controls in its mortgage operations discovered by the N.C. Office of the Commissioner of Banks (NCCOB).

According to NCCOB, Challenge Financial Investors Corp. (Challenge) operated without appropriate levels of supervision and control over its loan officers. In addition, NCCOB alleged that Challenge solicited and accepted more than 100 mortgage applications by individuals who were unlicensed to do business in North Carolina. Challenge, headquartered in St. Petersburg, Fla., currently has 19 licensed branch offices in North Carolina, including in Concord, Winston-Salem, Charlotte, Fayetteville, Greensboro, Knightdale, Rocky Mount and Wilmington.

"We will not allow mortgage companies to play fast and loose with our licensing requirements," said Deputy Commissioner of Banks Mark Pearce. "We hope that other companies will take note of this agreement and make sure they operate with complete supervision over their loan officers."

NCCOB alleged that Challenge operated as what is known as a "net branch" company, where the corporate office allowed individual loan officers to operate with minimal supervision in exchange for a small fee for each loan originated in the company's name. In 2003, Commissioner of Banks Joseph A. Smith Jr. issued a declaratory ruling in which he held certain net-branch arrangements to be in violation of North Carolina's Mortgage Lending Act. Many other states and the U.S. Department of Housing and Urban Development have similar restrictions on this type of activity.

As part of the settlement agreement, Challenge has agreed to pay the \$848,000 civil money penalty, reimburse NCCOB \$27,525 in investigative costs, and continue efforts to put in place stringent safeguards to gain full supervision and control over its business operations in the state. Such safeguards include careful evaluation of branch managers and loan officers to ensure that they are qualified, properly trained, and licensed. Challenge must also install and implement a software program that will detect, identify and fine unlicensed individuals who attempt to originate mortgage loans. NCCOB's investigation did not find evidence of abusive loan terms in loans brokered by Challenge.

The civil money penalty is payable in installments until Jan. 1, 2012. If Challenge shows substantial compliance with the agreement and state laws, on or after May 10, 2010, it may petition the Commissioner of Banks to waive or reduce the remaining civil money penalty.

"While this penalty is significant, we were able to reach a settlement in this case due to fact that Challenge has already begun to implement a number of critical improvements to provide greater confidence in their management systems," said Pearce. "We fully expect them to conduct their operations in North Carolina in a fair manner."

NCCOB currently licenses more than 1,600 mortgage lenders and brokers and more than 17,000 loan officers.

The settlement agreement and order are available at NCCOB's website at http://www.nccob.org/mlenforcements/07_006.pdf.

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