

NEWS RELEASE

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Deputy Commissioner Will Testify at Public Hearing Before Federal Reserve

RALEIGH—North Carolina Deputy Commissioner of Banks Mark Pearce will testify today at a public hearing before the Board of Governors of the Federal Reserve in Washington, D.C. regarding regulations under the Home Ownership and Equity Protection Act of 1994 (HOEPA).

The Federal Reserve is holding the hearing to gather information about how the Board might use its rulemaking authority to curb abusive lending practices in the home mortgage market, including the subprime sector, in a way that preserves incentives for responsible lenders to provide credit to borrowers.

Pearce stated in his written testimony that "...the fact that HOEPA regulations can apply to all participants in the mortgage market make them an extremely useful tool in correcting abuses in the marketplace. While state laws and regulations provide important laboratories for experimentation, we need federal support to be optimally effective in rooting out abusive lending."

Pearce also stated that updating the HOEPA regulation with a number of clear prohibitions and changes can help remove much of the abusive lending in North Carolina. These include regulating prepayment penalties, banning stated income loans in the subprime market, establishing requirement that lenders consider a borrower's ability to repay the loan, and require escrows for taxes and insurance for subprime loans.

In addition, he suggested that the Federal Reserve work with other federal agencies to improve the disclosure system in the mortgage process. He said current disclosures enable unscrupulous lenders to hide abusive terms in an excessive amount of documents and complex language that many borrowers are unable to find or comprehend. On behalf of the Conference of State Bank Supervisors (CSBS), Pearce will provide the Board of Governors a model disclosure form that contains a simple and clear explanation of loan terms and costs.

Pearce described North Carolina's past efforts at tackling predatory lending and the state's current efforts to address problems in today's marketplace. In his testimony, Pearce said the North Carolina Office of the Commissioner of Banks (NCCOB):

- has increased its investigation and examination staff to address mortgage fraud;
- has supported legislation to make mortgage fraud easier to prosecute as a felony;
- has supported legislation to make it easier to identify the loan originators active at the neighborhood level to help identify patterns of poor lending;
- is developing better systems to assess changes in origination activity faster than in the past;

- is looking at relationships between builders and affiliated lenders;
- is aggressively enforcing its laws against brokers that have failed to uphold appropriate standards and lenders that have made loans without consideration of a borrower's ability to repay the loan;
- has adopted the nontraditional mortgage guidance and continues to work closely with other states to develop collaborative approaches to examination and enforcement;
- is in the process of updating its requirements for financial responsibility of lenders, brokers, and loan officers to make sure participants have the wherewithal to keep promises made to North Carolina consumers; and
- will join a national licensing system next year that will streamline the licensing process.

Pearce concluded his testimony by asking the Board of Governors to help protect vulnerable homeowners: "I respectfully encourage the Board of Governors to update HOEPA to address practices that have caused harm while recognizing that this is a continual work in progress."

The Deputy Commissioner's written testimony and the model disclosure form will be available this afternoon on NCCOB's website at www.NCCOB.org.

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