

NEWS RELEASE

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The North Carolina Office of the Commissioner of Banks Issues Proposed Guidance on Non-traditional Mortgage Products

RALEIGH -- Mortgage lenders and mortgage brokers will have new guidelines for so-called “non-traditional” or “exotic” mortgage loan products under proposed guidance issued today by the North Carolina Office of the Commissioner of Banks (NCCOB).

Non-traditional mortgage loans refer to mortgage products that permit borrowers to defer payment of principal or interest for a period of time. These non-traditional products offer borrowers the opportunity for an initially lower monthly payment compared to a traditional mortgage loan but require a higher monthly payment in later years.

“Innovative mortgage products are welcome, but I am concerned that interest-only mortgages and some ‘option-pay’ mortgages may be offered to borrowers that do not understand the risks involved,” Deputy Commissioner of Banks Mark Pearce said. “When the higher payments kick in, homeowners may have difficulty keeping their homes.”

These non-traditional mortgage products have become increasingly common across the country in recent years. Federal regulators recently issued guidance on these products to banks, thrifts, and credit unions. The proposed guidance by the NCCOB is intended to apply similar guidance to mortgage lenders and mortgage brokers. Currently, NCCOB regulates over 1,600 mortgage lenders and brokers and over 15,000 mortgage loan officers.

“The risks of these products for borrowers are the same regardless of whether they are offered in mortgage loans from a bank, from a mortgage lender, or through a mortgage broker. This guidance will help level the playing field in the mortgage market and promote consistency among mortgage lenders,” Pearce said.

The proposed guidance issued today was developed in cooperation with the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR). CSBS and AARMR issued proposed guidance to state regulators last week, and several states have taken steps to adopt it.

“We appreciate the fine work by CSBS and AARMR in proposing model legislation for state regulators and working with federal regulators on this issue,” Pearce said.

NCCOB is accepting public comment on its proposed guidance through January 29, 2007. The guidance is available on the NCCOB website at www.nccob.org.

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