

Rising Foreclosures in North Carolina

**House Select Committee on Rising Home
Foreclosures**

January 23, 2008

**Mark E. Pearce, Deputy Commissioner
NC Office of the Commissioner of Banks**

NCCOB's regulation of mortgage lending

- NCCOB licenses 1,600 mortgage companies and 16,000 individual loan officers
- NCCOB regulates 8 of the top 20 mortgage lenders
- The top 20 lenders account for just over 50% of the total origination market

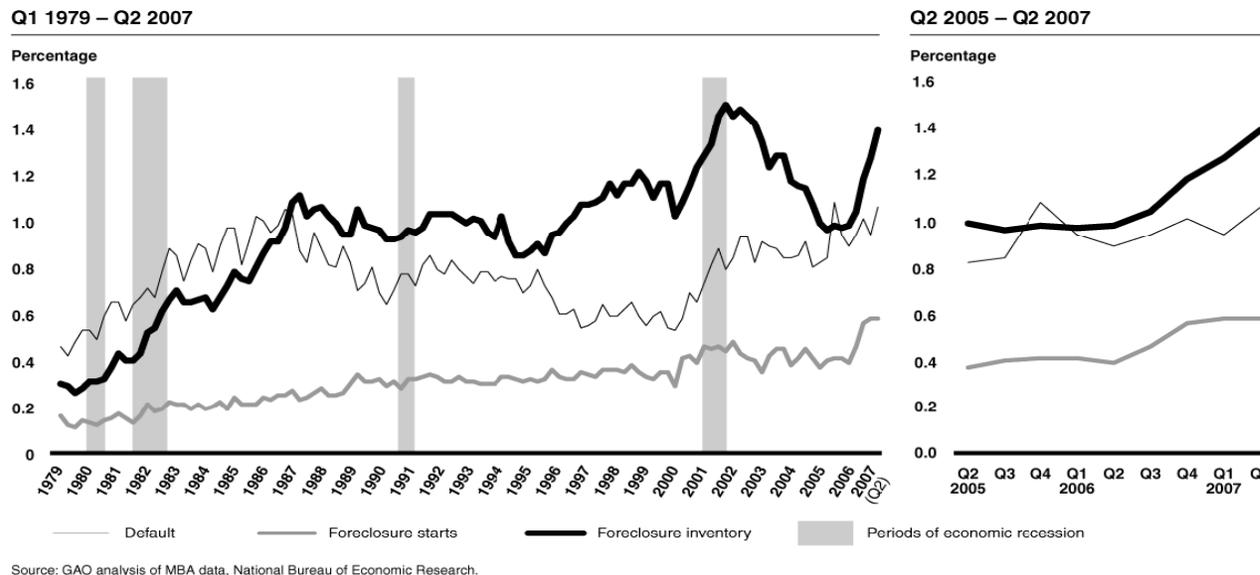
All Originations (NC)

2006- Top NC Mortgage Originations		Dollar Volume (\$000)	%
1	WELLS FARGO BANK, NA (COMMERCIAL BANK)	4,756,298	8.6
2	BANK OF AMERICA, N.A. (COMMERCIAL BANK)	3,435,128	6.2
3	BRANCH BANKING AND TRUST COMPANY (COMMERCIAL BANK)	3,054,980	5.5
4	COUNTRYWIDE HOME LOANS (MORTGAGE COMPANY)	2,758,347	5.0
5	SUNTRUST MORTGAGE, INC (MORTGAGE COMPANY)	2,253,643	4.1
6	WACHOVIA MORTGAGE (MORTGAGE COMPANY)	1,987,278	3.6
7	AMERICAN HOME MORTGAGE CORP. (MORTGAGE COMPANY)	1,664,367	3.0
8	STATE EMPLOYEES' CREDIT UNION (CREDIT UNION)	1,544,962	2.8
9	WACHOVIA BANK (COMMERCIAL BANK)	1,376,500	2.5
10	NATIONAL CITY BANK (COMMERCIAL BANK)	1,370,083	2.5
11	JPMORGAN CHASE BANK (COMMERCIAL BANK)	1,002,940	1.8
12	RBC CENTURA (COMMERCIAL BANK)	640,601	1.2
13	OHIO SAVINGS BANK (SAVINGS INSTITUTION)	603,556	1.1
14	TAYLOR, BEAN & WHITAKER (MORTGAGE COMPANY)	575,094	1.0
15	FIRST-CITIZENS BANK & TRUST COMPANY (COMMERCIAL BANK)	574,221	1.0
16	ABN AMRO MORTGAGE GROUP, INC. (MORTGAGE COMPANY)	538,537	1.0
17	DECISION ONE MORTGAGE (MORTGAGE COMPANY)	537,242	1.0
18	SIDUS FINANCIAL, LLC (MORTGAGE COMPANY)	512,698	0.9
19	FIRST HORIZON HOME LOAN CORP (MORTGAGE COMPANY)	508,516	0.9
20	USAA FEDERAL SAVINGS BANK (SAVINGS INSTITUTION)	453,475	0.8

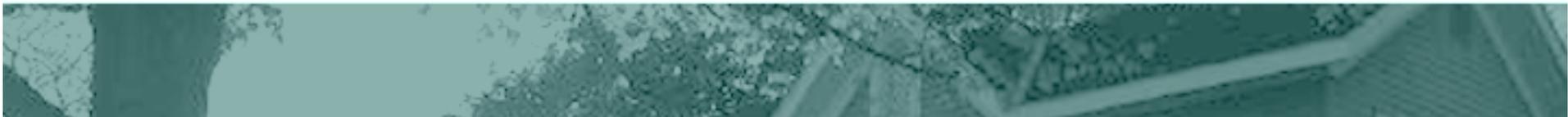
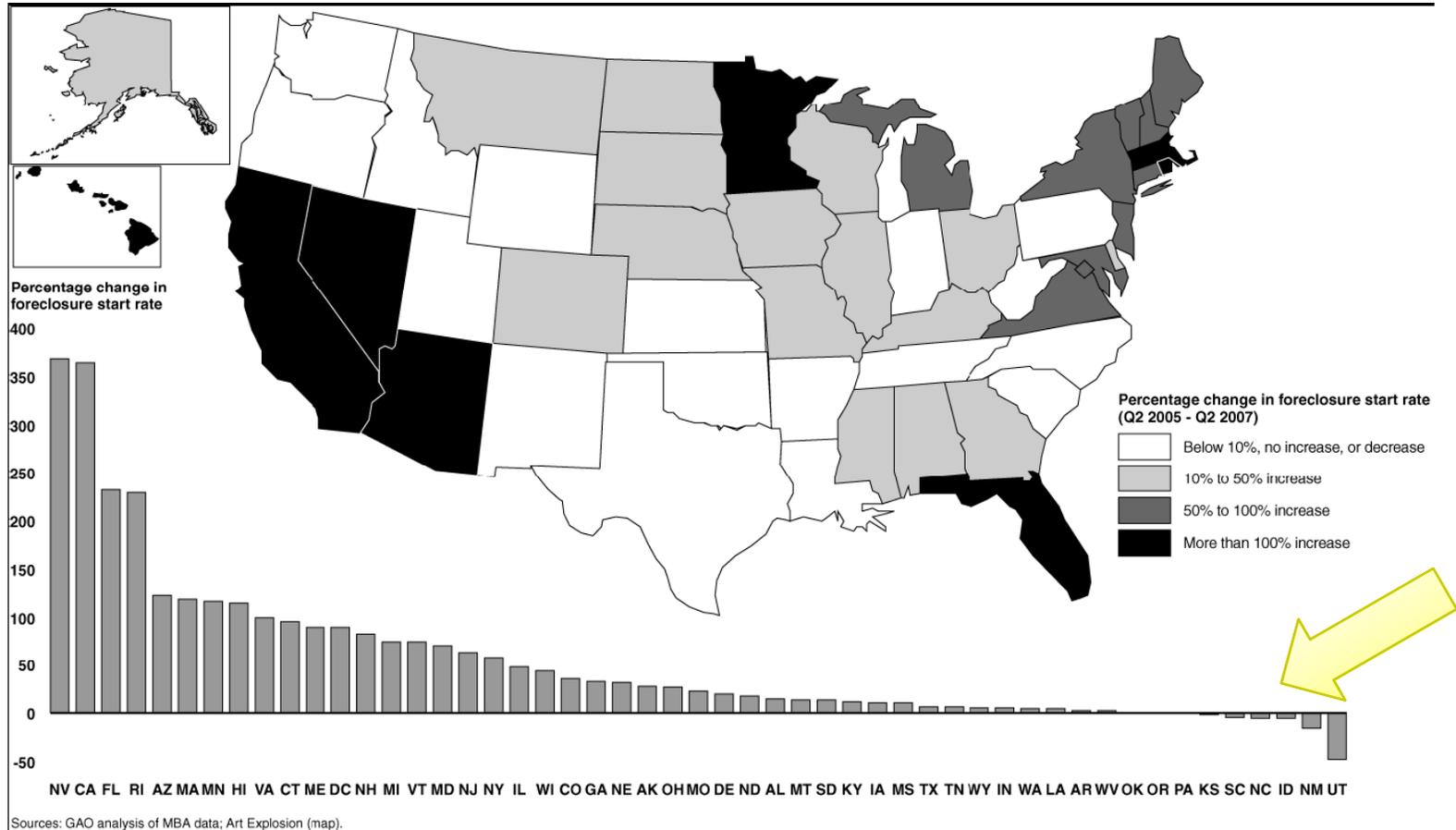


Foreclosure Crisis in US

- Foreclosure starts at historic highs
- Mortgage losses estimated at \$300-400 billion
- First annual home price decline in U.S. since Great Depression
- Results of poor underwriting and fraud just now showing up
- Problem to get worse before it gets better, as national economic picture deteriorates during higher defaults of subprime mortgages
- 1-2 million foreclosures expected nationwide within next two years



North Carolina v. US



Strong Laws and Balanced Growth have reduced NC's susceptibility to crisis

North Carolina has been national leader in addressing abusive lending:

- 1999: First state anti-predatory lending supplement to federal law
- 2001: License mortgage companies *and* individual loans officers
- 2007: Four laws to update protections (H.1817, H.1374) and provide new tools for enforcement (H.817; H.313). Used as model for federal legislation.

Strong regulation has led to more prime loans and less fraud:

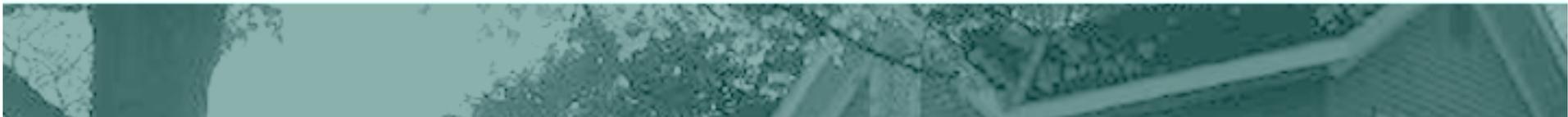
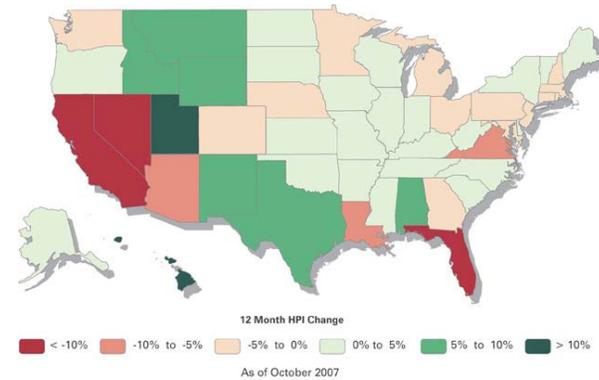
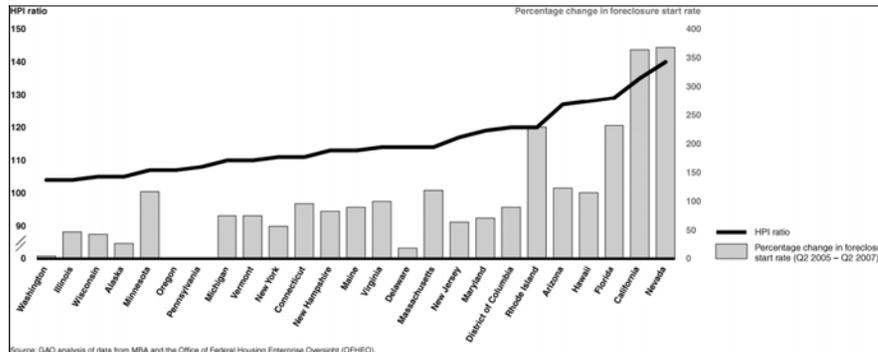
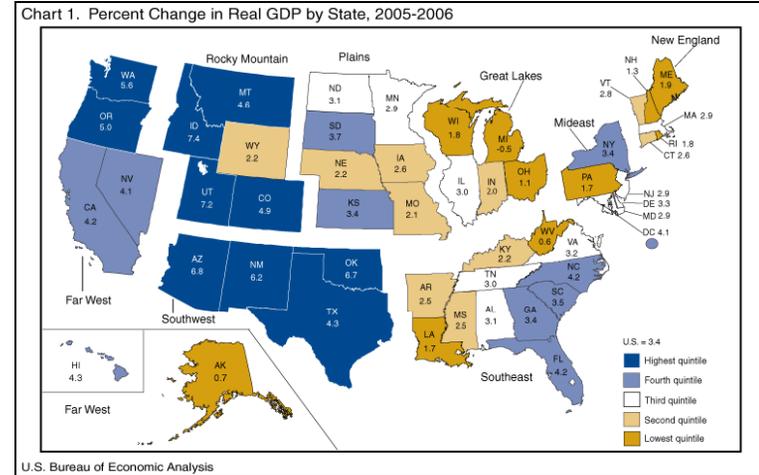
- Fewer adjustable rate loans – half of national average
- Fewer “nontraditional mortgages” – about 2/3^{rds} of national average
- Fewer subprime loans – 45th in nation in concentration of subprime lending in 2005
- Less mortgage fraud – 33rd out of 44 reporting states in 2006



Strong Laws and Balanced Growth have reduced NC's susceptibility to crisis

Balanced growth:

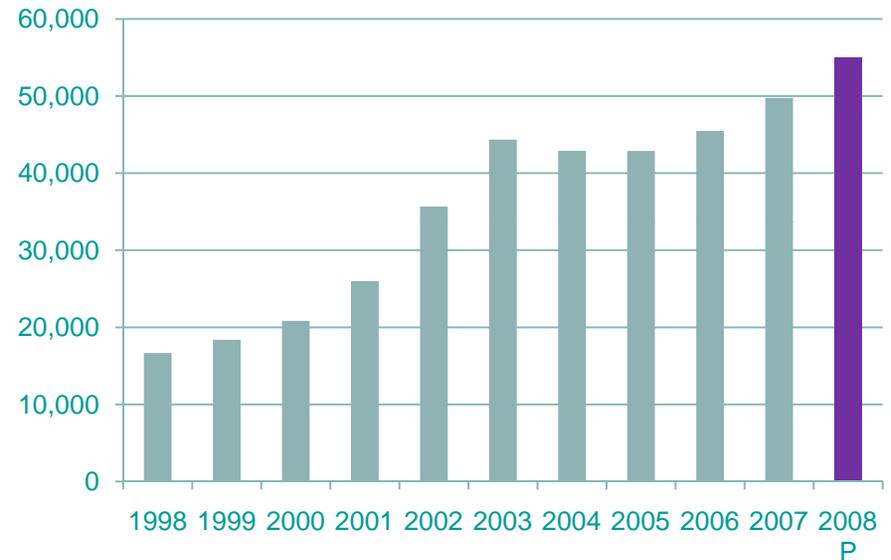
- NC growth moderate, but not overheated
- Continued in-migration and population growth. Number of owner-occupied home units increased by 45% between 2000-2006.
- NC home price appreciation has not seen boom/bust of other parts of country.



Foreclosure Problem in NC

- Foreclosure starts up 9.4% over 2006
- NCCOB predicts a 10-20% increase in 2008:
 - Increased number of subprime loans facing “payment shock”
 - Slowing growth of home prices coupled with high leverage ratios
 - Spillover from slowing economic conditions.
- Foreclosures impact property values directly and indirectly (and tax revenue)
 - Unsold inventory up 32% in Dec 2007 from Dec 2006

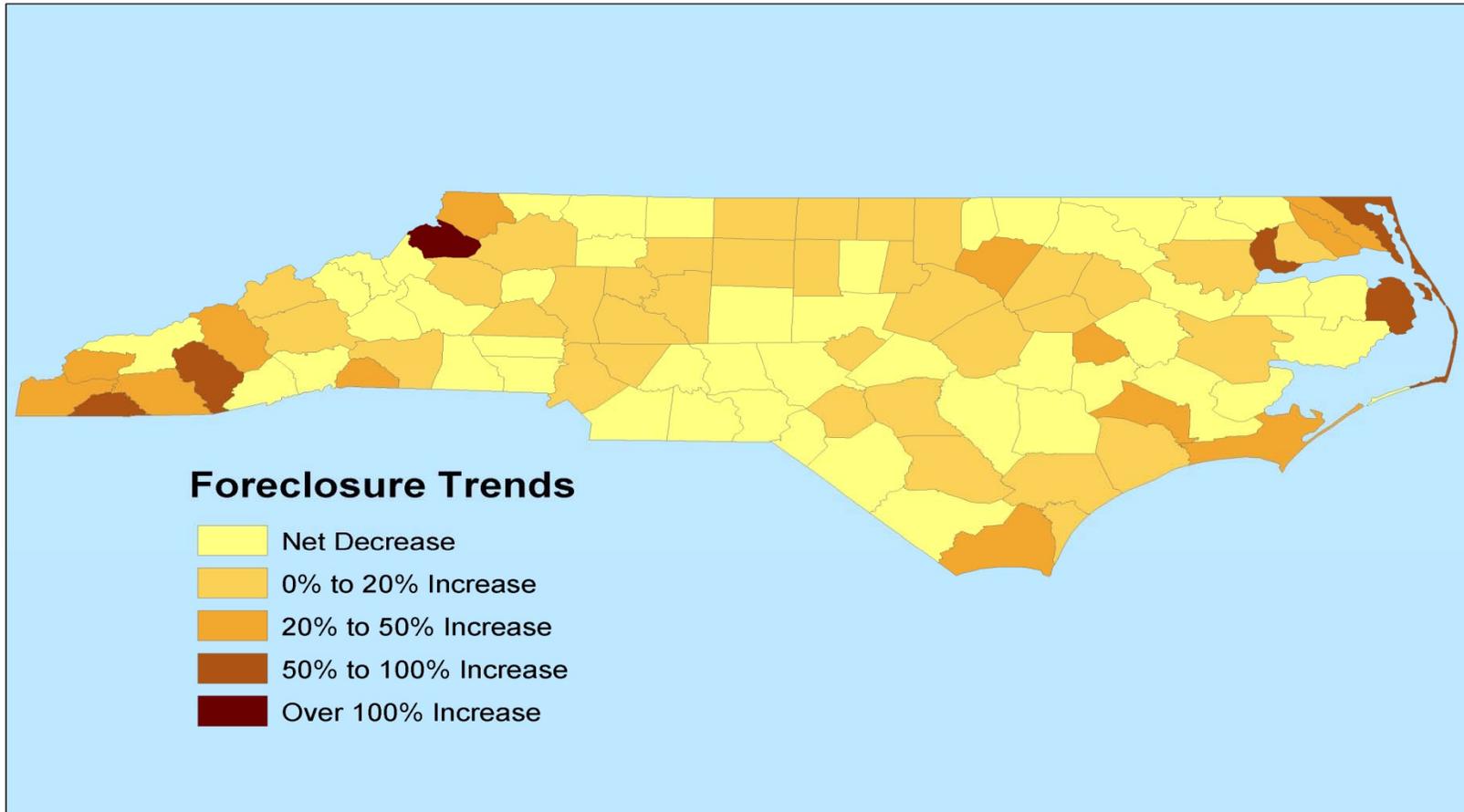
NC Foreclosure Starts



Data Source: Administrative Office of the Courts



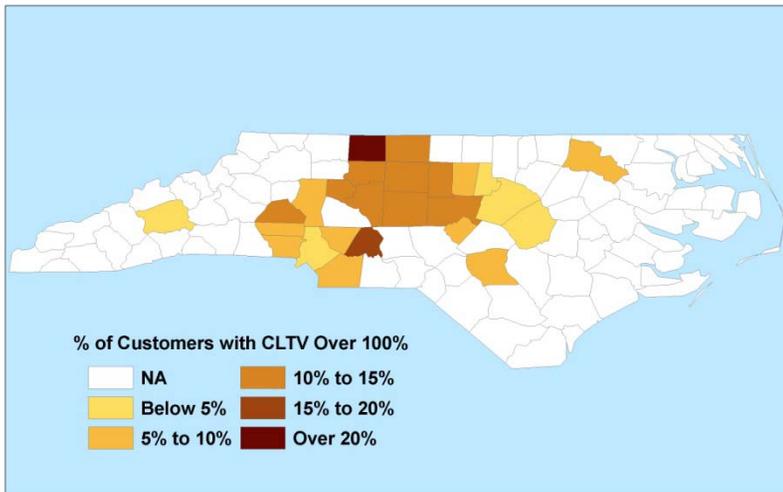
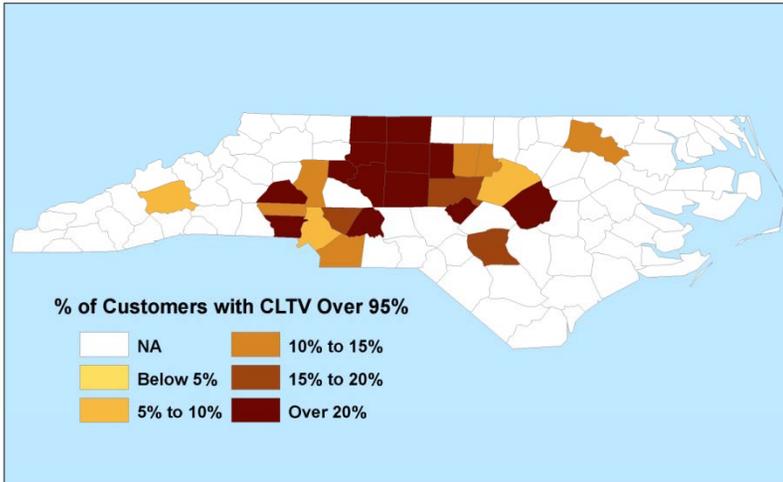
Foreclosure Trends 2006 to 2007 North Carolina by County



Foreclosure data from NC Administrative Office of the Courts.



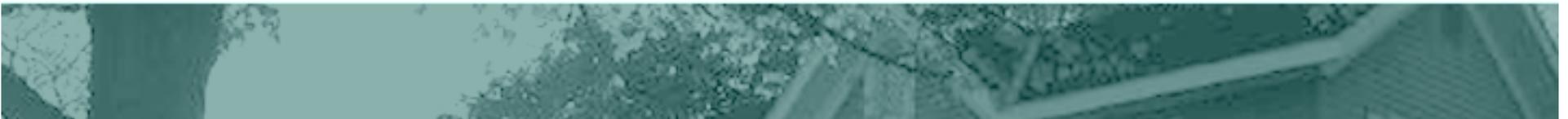
**CLTV Comparisons
North Carolina by County**



Data provided by SMR Research as of July 2007.

Foreclosure potential in areas where homeowners have little equity in the home.

Metro areas all at risk for increased foreclosures in 2008.



NCCOB Strategy to Prevent Unnecessary Foreclosures

- Hold lenders and brokers accountable for origination of abusive or fraudulent loans
- Work with servicers to ensure that homeowners have opportunities to avoid needless foreclosures
- Increase counseling resources for homeowners in distress



Options for General Assembly to Reduce Foreclosures

- Increase regulation of mortgage servicing beyond H.1374
- Temporarily increase judicial review of foreclosures for certain types of subprime or non-traditional loans originated in 2005-2007
- Increase funding for counseling and enforcement



Conclusion

- Pro-active legislation and balanced growth have put NC in good position to weather foreclosure storm
- Still, foreclosures are increasing and General Assembly may want to consider options to reduce foreclosures
- Federal government is wild card

