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# The Compliance Connection

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State Corporation Commission - Bureau of Financial Institutions  
Regulatory News for Virginia Mortgage and Consumer Finance Licensees

October 1999

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Suggestions and comments  
concerning the newsletter or its  
contents should be addressed to  
the Bureau at the above address  
or via e-mail at:

nwalker@scc.state.va.us

## Bureau Enjoined from Enforcing Prepayment Penalty Limits on Alternative Mortgages:

The United States District Court for the Eastern District of Virginia ruled September 10, 1999, that the Bureau of Financial Institutions may not require mortgage lenders to comply with Virginia laws limiting prepayment penalties when the lenders make alternative mortgages. The court found – in a case brought by The National Home Equity Mortgage Associations (“NHEMA”) – that federal law, the “Alternative Mortgage Transaction Parity Act”, and regulations preempt state laws restricting prepayment penalties.

This preemption operates in favor of “housing creditors” (as defined in the Parity Act) that make “alternative mortgage transactions” in compliance with certain regulations of the Office of Thrift Supervision (“OTS”). The Court’s September 10<sup>th</sup> decision made permanent an injunction it had granted earlier, on a temporary basis, against the Bureau’s enforcement of state law.

The Bureau defendants and the Attorney General of Virginia have noted an appeal from the District Court’s decision to the United States Court of Appeals for the Fourth Circuit.

**NOTE: This federal preemption applies only in cases where (1) the mortgage loan is an alternative mortgage transaction, within the meaning of the Parity Act, and (2) the housing creditor making the loan does so in accordance with applicable OTS regulations. Where both of these conditions are not present, Virginia prepayment penalty laws continue to apply. If you plan to impose prepayment penalties in excess of the limits in the Virginia Code, we suggest you obtain advice from competent legal counsel.**



**Y2K Update:**

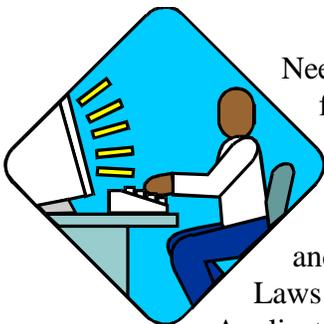
As indicated in the July 1999 issue of The Compliance Connection, Y2K Readiness Disclosure questionnaires were mailed on July 15th to over 400 of our licensees to determine the status of their Y2K readiness. These disclosures were to be completed and returned to the Bureau by August 15, 1999. It was further indicated that those licensees failing to respond would be placed on a regulatory action list. Any licensee placed on the list would be subject to one or more of the following: contact with the licensee by a representative of the Bureau, denial of applications pending or subsequently submitted to the Bureau, and if necessary, recommendation of a fine and/or suspension or revocation of license.

**As of October 15, 1999, the following licensees have not responded to the questionnaire and are being placed on the following regulatory action list. Companies on this list should have received a certified letter requesting important information concerning their Y2K readiness.**

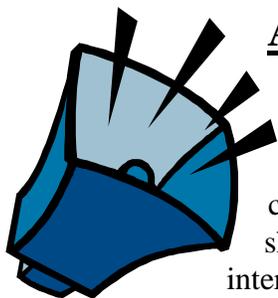
ML-52	DeGeorge Capital Corp.
ML-292	Financial Network Alliance, L.L.P.
ML-298	Great American Home Mortgage Corporation
MLB-205	First Government Mortgage and Investors Corporation
MLB-257	NF Investments, Inc.
MLB-369	First Republic Mortgage Corporation
MLB-460	Lancorp Financial Network, Inc.
MB-559	American Mortgage Bankers, Inc.
MB-1024	NationsTrust Mortgage Corporation
MB- 1286	H. K. Stone Financial Corp.



Any of the above licensees desiring to be removed from the list should contact Dwight Stephens at 804-371-9702.

**Easy way to get information...**

Need a copy of one of Virginia's statutes? An application form? A copy of an article from a previous newsletter? Did you know that all of these items can be found on the SCC's website? We are constantly updating the information on the site to better provide needed information, so check out [www.state.va.us/scc](http://www.state.va.us/scc) . At the main screen, scroll down until you see the "Financial Institutions" box, click on the box and it will take you to the Bureau's part of the website. From there you can access the Laws of Virginia, the Virginia Administrative Code, "Frequently Asked Questions", Application and Annual Report forms, all previous issues of this newsletter and general information about the SCC and its regulatory areas. You will be amazed at how much time is saved by going right to the website to get the information you need.



## Attention New Mortgage Licensees:

November 15, 1999 is the date of the next orientation for new mortgage licensees. Companies who were licensed between July 1<sup>st</sup> and September 30<sup>th</sup>, 1999 should have received information about the session. Orientation begins at 9:30 a.m. and concludes around 4:00 p.m. Licensees who were unable to attend previous sessions should also register. Space is limited, but we will make every attempt to accommodate interested parties.

## License Update:

The following is a list of companies who have surrendered their license, had their license revoked, application denied or been fined by the Commission **since June 30, 1999**. We hope this will be helpful in keeping track of companies with whom you do business. **These lists are accurate as of October 1, 1999**. Call the Bureau if you have a question concerning a recent denial, surrender or regulatory action taken by the Commission. **NOTE: Doing business with an unlicensed mortgage company is a violation of Administrative Rulings 1603 and 1605, which can result in regulatory action.**

### MORTGAGE LICENSES SURRENDERED SINCE JUNE 30, 1999

MB – 1166 PENNSYLVANIA PINNACLE MORTGAGE CORP. D/B/A PINNACLE MORTGAGE – 7/1/99	MB – 1129 REAL DEVELOPMENTS, INC. T/A COASTAL MORTGAGE AND INVESTMENTS – 7/29/99
MB – 231 DISTINCTIVE FINANCIAL CORPORATION – 7/1/99	MLB – 511 VP MORTGAGE OF VIRGINIA, INC. – 8/2/99
ML – 286 1 <sup>ST</sup> INTERFINANCIAL MORTGAGE CORPORATION – 7/5/99	MLB – 382 1 <sup>ST</sup> PROFESSIONAL MORTGAGE INC – <u>SURRENDERED LENDER AUTHORITY ONLY</u> – 8/2/99 – <b><u>NOW MB -- 1447</u></b>
MLB – 564 SOUTHEAST HOME MORTGAGE CORP – 7/7/99	MB – 1256 PIERUCCI INC. D/B/A SUNSET MORTGAGE COMPANY – 8/3/99
MB – 1025 ALL MORTGAGE CONNECTIONS, INC. – 7/9/99	MLB – 559 RESIDENTIAL MORTGAGE CORPORATION (IMC), INC. – 8/3/99
MLB – 90 SOURCE ONE MORTGAGE SERVICES CORPORATION – 7/19/99	MLB – 635 CENTRAL MONEY MORTGAGE CO. (IMC), INC. – 8/3/99
MB – 712 PRESTIGE FINANCIAL SERVICES CORPORATION – 7/21/99	ML – 162 CITYSCAPE CORPORATION – 8/4/99
ML – 227 SECURITY FUNDING CORP – 7/23/99	MB – 1274 ALLIED MORTGAGE UNLIMITED, INC. – 8/9/99
MB – 1064 HOME LENDING, LC D/B/A AMERICAN MORTGAGE PARTNERS – 7/23/99	MB – 696 LONGSHINE MORTGAGE CORPORATION – 8/19/99
MLB – 506 CENTERPOINT MORTGAGE CORPORATION – 7/26/99	

(CONTINUED ON NEXT PAGE...)

**Surrendered (continued):**

MB – 1193 COMMUNITY MORTGAGE SERVICES, INC. – 8/20/99	MB – 689 COASTAL AMERICAN MORTGAGE, INC. – 9/7/99
MLB – 588 INVESTAID CORPORATION D/B/A EQUITREE FINANCIAL SERVICES – 8/25/99	MB – 1122 VISION MORTGAGE, INC. – 9/13/99
MLB – 508 FIRST MORTGAGE LLC – 8/30/99	MLB – 568 PRIME TIME MORTGAGE, INC. – 9/13/99
MLB – 468 MORTGAGE AMERICA (IMC), INC. D/B/A ALTERNATIVE LENDING MORTGAGE CORPORATION – 8/31/99	ML -- 337 COREWEST MORTGAGE COMPANY (USED IN VA BY COREWEST BANC) – 9/14/99
MLB – 432 NEW ENGLAND NATIONAL MORTGAGE CORPORATION – 8/31/99	MLB – 493 AMERICAN MORTGAGE REDUCTION, INC. D/B/A ALL CREDIT FUNDING – 9/17/99
	ML – 349 CAPITAL PLUS CORPORATION – 9/24/99
	ML – 233 ONE STOP MORTGAGE, INC. – 9/30/99

**NOTE:** MLB – 191 SOUTHERN MORTGAGE CORPORATION JUST NOTIFIED THE BUREAU THAT THEY CLOSED ON 12/10/98

**MORTGAGE APPLICATIONS DENIED SINCE JUNE 30, 1999**

MB – 1377 KAREN KATHLEEN WILSON D/B/A ATLANTIC COMMERCIAL MORTGAGE – 9/2/99  
LESLIE R. MILLMAN WAS DENIED PERMISSION TO ACQUIRE 25% OR MORE OF THE OWNERSHIP OF WALL STREET MORTGAGE (MLB – 233)

**MORTGAGE LICENSE REVOCATIONS SINCE JUNE 30, 1999**

NONE

**PENALTIES PAID BY MORTGAGE LICENSEES SINCE JUNE 30, 1999**

MB – 577 MORGAN HOME FUNDING CORPORATION – 7/29/99 – PAID \$1,000 FOR FAILURE TO OBTAIN APPROVAL PRIOR TO THE RELOCATION OF AN OFFICE  
MB – 1014 USA FINANCIAL SERVICES, INC. – 9/24/99 – PAID \$2,500 FOR VARIOUS VIOLATIONS OF THE MORTGAGE LENDER AND BROKER ACT

**OTHER PENALTIES PAID:**

TRANSAMERICA CORPORATION – 9/24/99 – PAID \$1,000 FOR FAILURE TO OBTAIN COMMISSION APPROVAL PRIOR TO ACQUIRING THE STOCK OF TRANSAMERICA MORTGAGE COMPANY (ML – 269)

**Welcome to Virginia!**

On July 7, 1999 a new consumer finance licensee opened for business. SLM Financial Corporation was approved to conduct a consumer finance business on June 22, 1999 and currently has six licensed branches - Abingdon, Collinsville, Danville, Farmville, Lawrenceville and Onley.



**Consumer Finance Licensees:**

The following is an excerpt from a memorandum dated July 31, 1992, which was sent to all consumer finance licensees. The memorandum discussed some of the regulatory issues found by Examiners during examinations. One of the issues, overcharges from insurance charges without the borrower's authorization, continues to be cited in consumer finance and mortgage reports. We are reprinting this portion of the memorandum with the hope of eliminating the violation and informing all licensees of the corrective action acceptable to the Bureau. To obtain a copy of the entire memorandum, please contact our office at (804) 371-9701 or via e-mail (nwalker@scc.state.va.us).

Violations resulting from premiums for credit insurance charged to borrowers without the necessary signed authorization indicating the borrower desired such insurance will continue to be cited by examiners as overcharges. Such violations must be corrected by mailing a detailed notice to the borrower explaining the nature of the error (example: licensee's failure to obtain the proper signature or borrower's failure to mark the appropriate box) and requesting that the borrower sign and return the notice indicating whether or not the insurance is to be canceled. The licensee shall provide the borrower with a stamped addressed envelope for returning the notice. The notice must also contain a description of the insurance along with the amount of the premium(s), a copy of the original disclosure statement containing the violation, a statement that the insurance is already included in the borrower's monthly payment, and a statement that cancellation will result in a full refund of the premium, plus interest.

If the borrower returns the notice and elects not to cancel, the insurance(s) may remain in effect and no reimbursement of the premium(s) is required. If the borrower returns the notice electing to cancel, full reimbursement (including accrued interest) must be made directly to the borrower by check – not by credits to the borrower's account. Should the borrower fail to return the notice within a reasonable period of time (45 days from the date of the notice), full reimbursement as described above must be made. In the event the licensee cannot locate the borrower and it has been determined the licensee has made a reasonable attempt to locate, the borrower's account may be credited with the reimbursement. Loan files should contain copies of all mailings, reimbursement checks, other correspondence, etc. If copies are not retained and examiners cannot determine the licensee's compliance with these requirements, reimbursement will be required.

The above corrective measures will also apply to violations involving insurance premiums not disclosed to borrowers. According to Regulation Z, such violations should be treated in the same manner as those involving insurance charged but not signed for by the borrower. It should be noted that the corrective measures noted above may not release the licensee from further penalties afforded the borrower under Regulation Z.



**The Compliance Connection is published quarterly and is part of the Bureau's effort to improve communication with the companies we regulate. It is distributed to Virginia mortgage, consumer finance, industrial loan and non-profit debt counseling agency licensees and other interested parties. We encourage you to read each newsletter and distribute the information to all staff members. Comments and suggestions are appreciated!**

**IMPORTANT COMMISSION TELEPHONE NUMBERS**

Consumer Finance and Mortgage Examinations ....(804) 371-9701  
Licensing (applications, name changes, relocations).....(804) 371-9690  
Consumer Complaints.....(804) 371-9705  
Banks and Savings Institutions.....(804) 371-9704  
Corporate Information – Clerk’s Office.....(804) 371-9733  
FAX Number for the Bureau of Financial Institutions.....(804) 371-9416

**Bureau of Financial Institutions  
State Corporation Commission  
P.O. Box 640  
Richmond, Virginia 23218-0640**

**IMPORTANT REGULATORY  
INFORMATION ENCLOSED!!!**