



The Compliance Connection

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

The Compliance Connection is published quarterly and is part of the Bureau's efforts 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. It is the licensee's responsibility as a Virginia mortgage licensee to read this newsletter and to be familiar with the positions and interpretations stated herein.

Suggestions and comments concerning the newsletter or its contents should be addressed to the Bureau at P.O. Box 640, Richmond, Virginia 23218-0640 or via e-mail at: nwalker@scc.state.va.us.

Special thanks to Melissa McCollum, Karen Sullivan, Bob Mednikov, Todd Rose and Susan Hancock for their contributions to this issue!

Virginia Accepts Settlement with Household Finance; \$16.7 Million Available for Restitution

The State Corporation Commission (SCC) has agreed to the terms of a settlement with Household International, Inc., that will return approximately \$16.7 million to Virginia borrowers. The settlement amount is Virginia's portion of a national agreement to pay up to \$484 million to consumers as restitution for alleged deceptive lending practices by the mortgage lender.

SCC's Commissioner of Financial Institutions E. Joseph Face, Jr., says the settlement is fair and reasonable to the more than 10,000 Virginians who were charged higher interest rates than promised, paid costly prepayment penalties, or may have been trapped in costly loans as a result of the company's practices.

Household International, Inc. (the parent company), Household Finance Corporation and Beneficial Financial Corporation are named in the settlement. The settlement applies to consumers who obtained real estate loans with one or more of these companies between January 1, 1999, and September 30, 2002.

The alleged deceptive lending practices began in 1999. Household, based in Prospect Heights, Illinois, has not admitted nor denied the allegations. The company has, however, changed its lending practices as a result of the settlement.

It is alleged that Household violated various laws and regulations governing mortgage loans. In many cases, borrowers' monthly payments jumped dramatically, and some consumers were put at risk of losing or did lose their homes.

Virginia borrowers must wait to apply for restitution until a settlement administrator is named. The administrator will make every effort to contact all affected borrowers. This effort is expected to begin in four to six months. At this time, the SCC's Bureau of Financial Institutions is unable to inform consumers whether they are included in the settlement or entitled to restitution.

Virginia's share of the restitution fund is proportional to Virginia's percentage of Household's total real estate secured dollar loan volume. Household originated more than \$1 billion in real estate loans in Virginia between January 1999 and September 2002.

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Appraisal Issue:

Frequently we receive calls from consumers as well as from licensees inquiring about laws that pertain to providing copies of appraisals.

Section 6.1-2.9 of the Code of Virginia requires lenders to *furnish free of charge* a copy of the appraisal to the borrower if the borrower has paid for the appraisal and has made a request for a copy. A lender must provide the copy within ten days of the borrower's request. In instances where no written appraisal exists, the lender must provide the borrower with a statement of the appraised value. The Bureau *strongly encourages* licensed mortgage brokers to voluntarily provide a copy of the appraisal in instances when the application is never sent to a lender, but the prospective borrower paid for the appraisal. To view the complete text of this statute, go to <http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+6.1-2.9>.



Face Elected Chair of State Financial Regulators Roundtable

At its December 9, 2002 meeting, Virginia Commissioner of Financial Institutions E. J. Face, Jr. was elected Chairman of the State Financial Regulators Roundtable (SFRR) for 2003. SFRR was started to provide a forum for communication, coordination, and cooperation among state regulatory associations in the promotion of effective state regulatory oversight of financial service providers. Mr. Face represents the Conference of State Bank Supervisors (CSBS) on the Roundtable. Members include CSBS, the National Association of State Credit Union Supervisors (NASCUS), the American Association of Residential Mortgage Regulators (AARMR), the American Council of State Savings Supervisors (ACSSS), the Money Transmitter Regulators Association (MTRA), the National Association of Consumer Credit Administrators (NACCA), the National Association of Insurance Commissioners (NAIC), and the North American Securities Administrators Association (NASAA). The roundtable meets quarterly and discusses a variety of issues, such as 1) pending/recent federal agency rulemakings that impact SFRR members and 2) recent "attacks" on the state financial regulatory system, including H.R. 5621, the GAO Study of the NCUA and Congressman Richard Baker's preemption effort of state securities authority. The next SFRR meeting is scheduled in Savannah, Georgia, on March 7, 2003. Expected issues to be discussed include AARMR's national license/registration program, the OCC's preemption and proposed nationwide predatory lending rule, and an update on state banking agencies' efforts to ensure compliance with Patriot Act rules.



Attention New Mortgage Licensees:

Friday, February 21, 2003 is the date of the next orientation for new mortgage licensees. Companies licensed between October 1, 2002 and December 31, 2002 will receive information about the session. Orientation begins at 9:30 a.m. at our office and concludes around 3:00 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. Call Carol Foster at (804) 371-9701 to register!



Surety Bond Claims:

Since January 1, 2002, the following surety bond claims were filed by the Bureau and paid to borrowers:

- MLB - 575 First Financial Funding Group -- \$1,595.00 claim paid on 3/13/02
-- license surrendered 11/6/00
- MLB -- 390 Monument Mortgage Corporation -- \$900 claim paid on 4/1/02
-- license revoked 10/30/01
- MB -- 1383 Global Mortgage Corporation -- \$10,000 claim paid on 9/17/02
-- license surrendered 3/21/00



License Update

The following is a list of companies that have surrendered their licenses, had their licenses revoked, had an application denied, or been fined by the Commission **since August 15, 2002**. This list should be helpful to keep track of companies with which you do business. **These lists are accurate as of November 15, 2002**. Call the Bureau if you have a question concerning a recent denial, surrender or regulatory action taken by the Commission. A list of current mortgage licensees is available on our Web site at <http://www.state.va.us/scc/division/banking/vamortgelist.htm>.

Mortgage License Surrenders:

- MB - 1800 America's Mortgage Center, Inc. - 8/31/02
- MLB - 583 Fortress Mortgage, Inc. - 8/31/02
- MB - 1588 American Equity Mortgage, Inc. - 9/5/02
- MB - 1467 Millennium Financing, Inc. - 10/02/02
- MB - 1640 Security One Mortgage Corporation - 10/7/02
- MLB - 655 Fidelity First Lending, Inc. d/b/a Valley Pine Mortgage - 10/16/02
- MLB - 201 GE Capital Mortgage Services, Inc. - 10/24/02
- MLB - 744 UVEST Financial Services Group, Inc. d/b/a UVEST Mortgage Services - 11/4/02

Penalties Paid:

- Morris E. Sampson -- 9/3/02 -- paid settlement of \$1,000 for failing to obtain Commission approval prior to acquiring more than 25% of the stock of Kenwood Associates, Inc. (MLB - 243) in violation of Section 6.1-416.1 of the Code of Virginia
- Edwin E. Hosier, Jr. -- 10/3/02 -- paid settlement of \$1,000 for failing to obtain Commission approval prior to acquiring more than 25% of the stock of Concorde Acceptance Corporation (MLB - 796) in violation of Section 6.1-416.1 of the Code of Virginia
- Gilbert J. Barteau -- 10/3/02 -- paid settlement of \$1,000 for failing to obtain Commission approval prior to acquiring more than 25% of the stock of Concorde Acceptance Corporation (MLB - 796) in violation of Section 6.1-416.1 of the Code of Virginia

Fraud Warning:



Incidents of fraud in residential mortgage lending have increased greatly in recent years. The Bureau is very concerned about the increasing trend and is taking steps to increase our knowledge and investigative skills in this area. Members of Bureau staff are in contact with members of law enforcement agencies and other government agencies on the federal, state and local levels (FBI, HUD, HUD Office of Inspector General, Veteran's Administration, and police) to ensure those participating in mortgage fraud are held accountable.

Licensee's company policies, compensation and marketing plans should reflect a desire to prevent fraud from occurring. Owners, managers, loan officers and processors must get involved to make sure fraud is eliminated from the mortgage industry. A licensee's inaction to prevent fraud can have devastating consequences such as

loss of investor support, loss of HUD/VA approval, demands for repurchase of mortgage loans, monetary fines by regulatory agencies, revocation of license and/or prosecution by law enforcement officials.

Information Available on the Web: www.state.va.us/scc

Have you been to the Bureau's Web site lately? If you haven't, you may be surprised at how much useful information is available at your fingertips! Be sure to visit our site and let all employees know where they can find this valuable information.

- Financial Institutions Laws, Regulations, Administrative Letters, and Regulatory Action Taken
- List of Licensed Mortgage Lenders and Brokers
- Application Forms
- Annual Report Forms
- Bureau Annual Reports
- Newsletters (all issues since March 1996)
- List of Licensed Payday Lenders
- Frequently Asked Questions
- How to file a complaint
- How to Contact the Bureau/Get Directions



Upcoming State Holidays:

Friday, January 17
Monday, January 20
Monday, February 17

Lee – Jackson Day
Martin Luther King Day
President's Day

Important Commission Telephone Numbers

Consumer Finance and Mortgage Examinations (804) 371-9701
Licensing (applications, name changes, annual reports) (804) 371-9690
Consumer Complaints (804) 371-9705
Banks and Savings Institutions (804) 371- 9704
Corporate Information - Clerk's Office (804) 371-9733
Bureau's FAX Number (804) 371-9416



Annual Report Due Dates Approaching:

Mortgage licensees must file the Annual Report in duplicate by March 1, 2003. For Consumer Finance licensees, the due date is April 1, 2003. The statutes which require the annual report do not provide for extensions for filing, but do allow the Commission to impose a fine against any licensee who fails to file in a timely manner.

Each report includes instructions for completing the forms, so please review them before completing the form. Here are some tips for completing and submitting the report:

- ◆ Make sure the report is complete, signed and notarized.
- ◆ Don't send money with the report. Assessments will be mailed out to mortgage licensees by April 25, 2003 and to consumer finance licensees by May 1, 2003. (Payments are due by May 25 and June 1 respectively.)
- ◆ For the mortgage report, don't include business that does not fall under the Mortgage Lender and Broker Act. (The Act covers Virginia loans made to individuals who will use the proceeds primarily for personal, family, or household purposes and the loan is secured by a deed of trust on any interest in one- to four-family residential, owner-occupied property located in the Commonwealth. It does not cover investment or commercial loans or loans made on non-Virginia property.)
- ◆ For the consumer finance report, include information that pertains to Virginia consumer finance business only.
- ◆ Make sure to include audited, consolidated financial statements of the licensee's operations that are not more than three months old, as well as audited financial statements for the parent companies of consumer finance licensees. If audited statements are not available by the deadline, send in the annual report and indicate on the report when the statements will be forwarded to the Bureau. If audited statements are not available, internal reports may be submitted.

If you have questions concerning the annual reports, please call the Bureau's Corporate Structure and Research Section at (804) 371-9690. You can obtain a copy of the annual report by visiting our Web site at : http://www.state.va.us/scc/division/banking/ar_forms.htm



think snow!



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IMPORTANT REGULATORY INFORMATION ENCLOSED