



State of North Carolina

Department of Justice
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ROY COOPER
ATTORNEY GENERAL

August 16, 2010

North Carolina Senate President *Pro Tempore* Marc Basnight
North Carolina House of Representatives Speaker Joe Hackney
Chairs, Joint Legislative Commission on Governmental Operations

Senator Eleanor Kinnaird
Senator John Snow
Representative Alice Bordsen
Representative Jimmy Love
Chairs, Appropriations Subcommittees on Justice and Public Safety

North Carolina General Assembly
Raleigh, North Carolina 27601-1096

RE: N.C.G.S. § 114-2.5; Report of Settlement – Consent Judgment entered as to
W.R. Starkey Mortgage, L.L.P. (“WRSM”)

Dear Members:

N.C.G.S. § 114-2.5 requires the Attorney General to report to the Joint Legislative Commission on Governmental Operations and the Chairs of the Appropriations Subcommittees on Justice and Public Safety regarding settlement agreements, final orders, or judgments which result in more than \$75,000 being paid to the State. Pursuant to that requirement, I am writing to report the consent judgment as to W.R. Starkey Mortgage, L.L.P. (“WRSM”).

By a consent judgment dated July 29, 2010, North Carolina, by and through the Attorney General’s Office, agreed to resolve its dispute regarding (a) WRSM’s extension of credit to consumers who would not have otherwise qualified for credit to purchase manufactured and modular homes; (b) WRSM’s extension of credit to consumers without due regard to the consumers’ ability to repay the loans; (c) WRSM’s adding discount points to mortgages without reducing the interest rate on the mortgages; (d) WRSM’s usage of known inaccurate information to boost the consumer’s credit worthiness; and (e) WRSM providing mortgages where, in some cases, the mortgage exceeded the home value causing the consumer to be unable to refinance the mortgage on more favorable terms, all in violation of N.C.G.S. § 75-1.1.

Pursuant to this consent judgment defendant was enjoined from (a) soliciting or processing loan applications, or extending credit to consumers for the purchase or refinance of manufactured homes in a transaction where a manufactured home dealer is a party, directly or indirectly, to the transaction, including where a manufactured home dealer arranges for the sale to be completed in the name of one of its agents or employees or through the owner of the land in order to avoid the prohibition in this injunctive provision; (b) soliciting or collecting personal financial information about a prospective borrower from any person or entity other than the prospective borrower, provided, however, that WSRM may verify the borrower's personal financial information through third parties responsible for maintaining such information in the normal course of business or verify gift funds from the donor of those gift funds; (c) failing to ensure that its underwriters comply with all applicable state and federal guidelines, rules, and regulations associated with the type of mortgage product being provided, however isolated underwriting compliance deficiencies will not give rise to finding of contempt pursuant to this consent judgment; (d) charging discount points without providing a bona fide and documented reduction in interest; and (e) charging discount points when such points are not knowingly requested and paid by a borrower for the purpose of reducing the borrower's interest rate.

Under the judgment, WSRM paid \$4,446,000 in compensatory damages for North Carolina borrowers who used WSRM financing to purchase homes from Phoenix Housing Group, Inc. Each of these borrowers/purchasers is entitled to receive up to \$26,000 in restitution. In addition, directs payment of \$25,000 to Western Piedmont Council of Government to help provide financial counseling to consumers who receive funds under the settlement. Moreover, defendant must also pay an additional \$125,000 to the Department of Justice for attorneys' fees, costs of investigation, consumer enforcement and protection purposes.

We will be happy to respond to any questions you may have regarding this report. Please feel free to contact me at (919) 716-6400.

Very truly yours,



Kristi Hyman
Chief of Staff

KH/jyc

cc: Kristine Leggett, Fiscal Research, NCGA
Nels Roseland, Chief Fiscal Officer, NC DOJ