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State to strengthen regulation of mortgage lenders

(Salem) — The Oregon Department of Consumer and Business Services (DCBS) today announced several measures it is taking to strengthen its regulation of the mortgage lending industry. The changes — which include adopting new rules and guidelines, and increasing education and enforcement efforts — are in response to consumer and industry concerns.

“Mortgage lending is a key part of Oregon’s economy, and taking out a mortgage is often the single largest financial decision an Oregonian will make,” said Cory Streisinger, director of the Department of Consumer and Business Services. “We expect these changes to help the industry stay strong while making sure borrowers are protected.”

The department’s Division of Finance and Corporate Securities (DFCS) adopted new rules, effective today, that implement more stringent education requirements for mortgage professionals and ensure that mortgage lenders are effectively supervising their loan originators. A complete list of the rules can be found on the division’s Web site at www.dfcs.oregon.gov.

“We believe more formal requirements will be positive for our industry,” said Eric Wiley, senior vice president and chief operating officer of Lake Oswego-based Pacific Residential Mortgage, which has seven Northwest locations and 100 employees. “Loan officers who are educated and well-informed provide better services to consumers and help the home-buying process go smoothly.”

DFCS also is addressing the increasing number of nontraditional loans offered to Oregonians by adopting guidelines for state-regulated lenders. The guidelines — which are based on federal guidelines for national banks and institutions — outline best practices related to two types of nontraditional loans: “payment option” and “interest only” adjustable rate mortgages. With these loans, borrowers exchange lower payments during an initial period for higher payments later. For example, in an interest only mortgage, a borrower only pays interest at first but eventually must pay interest and principal each month. As a result, the payment could increase substantially – even doubling in some cases.

“Nontraditional loans appeal to consumers who may not qualify for traditional loans, and these borrowers often do not understand the risks they may face,” said David Tatman, administrator for DFCS. “These guidelines will protect those borrowers by directing lenders to clearly explain the implications of the loans and evaluate the borrower’s ability to make monthly payments even when the loan rates are adjusted after a few years.”

The guidelines, which have been adopted by 19 states, will become part of the method used by examiners and investigators during compliance reviews of state law and regulation.

In addition to the rules and guidelines, DFCS plans to use education and enforcement to prevent misleading advertising, launch an industry newsletter to help mortgage lenders better understand Oregon laws and rules, and undertake an outreach campaign to provide information to consumers about foreclosure.

DFCS has been looking at its regulation of mortgage lenders in light of significant change within the industry, an increase in consumer concerns, and the importance of buying a home as it relates to the financial future of Oregon families. The number and variety of loan products available to Oregon families means more families will be able to realize the American dream of homeownership. It also means the agency has to keep up with those changes as it regulates the industry.

The department held a public forum this past spring to hear about trends in the industry that have affected consumers and conducted a review of its mortgage lending program in 2005. Additionally, the department met with mortgage lenders and other regulators to develop the new regulations. DCBS plans to implement the changes during the next year.

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The Division of Finance and Corporate Securities, part of the Department of Consumer & Business Services, helps ensure that a wide range of financial products and services are available to Oregonians and helps protect consumers from financial fraud and abuse. For more information, visit www.dfcs.oregon.gov.

The Department of Consumer and Business Services is Oregon's largest business regulatory and consumer protection agency. For more information, visit www.dcbs.oregon.gov.