

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

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HOUSE BILL 2623
Committee Substitute Favorable 7/7/08
Committee Substitute # 2 Favorable 7/9/08

Short Title: Emergency Foreclosure Reduction Program. (Public)

Sponsors:

Referred to:

May 28, 2008

1 A BILL TO BE ENTITLED
2 AN ACT TO CREATE AN EMERGENCY PROGRAM TO REDUCE HOME
3 FORECLOSURES AND TO AUTHORIZE THE COMMISSIONER OF BANKS
4 TO USE FUNDS FOR HOME FORECLOSURE PREVENTION.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. Chapter 45 of the General Statutes is amended by adding a
7 new Article to read:

8 "Article 11.

9 "Emergency Program to Reduce Home Foreclosures.

10 "§ 45-100. Title.

11 This Article shall be known as the Emergency Program to Reduce Home
12 Foreclosures Act.

13 "§ 45-101. Definitions.

14 The following definitions apply throughout this Article:

- 15 (1) Act as a mortgage servicer. – To engage, whether for compensation or
16 gain from another or on its own behalf, in the business of receiving
17 any scheduled periodic payments from a borrower pursuant to the
18 terms of any mortgage loan, including amounts for escrow accounts,
19 and making the payments of principal and interest and such other
20 payments with respect to the amounts received from the borrower as
21 may be required pursuant to the mortgage loan, the mortgage servicing
22 loan documents, or servicing contract.
- 23 (2) Mortgage lender. – A person engaged in the business of making
24 mortgage loans for compensation or gain.
- 25 (3) Mortgage servicer. – A person who directly or indirectly acts as a
26 mortgage servicer as that term is defined in subdivision (1) of this
27 section or who otherwise meets the definition of the term 'servicer' in

1 the Real Estate Settlement Procedures Act, 12 U.S.C. § 2605(i), with
2 respect to mortgage loans.

- 3 (4) Subprime loan. – A loan, originated on or after January 1, 2005, but
4 before December 31, 2007, that would meet the definition of a rate
5 spread home loan under G.S. 24-1.1F(a)(7), if that section had been in
6 effect when the loan was originated. A mortgage servicer may rely on
7 a chart reflecting the appropriate interest rate triggers for rate spread
8 home loans for each day of the period covered by this Article provided
9 by the Commissioner of Banks for the purposes of determining if a
10 loan is a subprime loan covered by this Article. The Commissioner
11 shall provide the chart at least 60 days prior to the effective date of this
12 act.

13 **§ 45-102. Pre-foreclosure notice for subprime loans.**

14 At least 45 days prior to the filing of a notice of hearing in a foreclosure proceeding
15 on a primary residence, mortgage servicers of subprime loans shall send written notice
16 by mail to the last known address of the borrower to inform the borrower of the
17 availability of resources to avoid foreclosure, including:

- 18 (1) An itemization of all past due amounts causing the loan to be in
19 default.
20 (2) An itemization of any other charges that must be paid in order to bring
21 the loan current.
22 (3) A statement that the borrower may have options available other than
23 foreclosure and that the borrower may discuss available options with
24 the mortgage lender, the mortgage servicer, or a counselor approved
25 by the U.S. Department of Housing and Urban Development.
26 (4) The address, telephone number, and other contact information for the
27 mortgage lender, the mortgage servicer, or the agent for either of them
28 who is authorized to attempt to work with the borrower to avoid
29 foreclosure.
30 (5) The name, address, telephone number, and other contact information
31 for one or more HUD approved counseling agencies operating to assist
32 borrowers in North Carolina to avoid foreclosure.
33 (6) The address, telephone number, and other contact information for the
34 consumer complaint section of the Office of Commissioner of Banks.

35 **§ 45-103. Pre-foreclosure information to be filed with the Administrative Office**
36 **of the Courts for certain subprime loans.**

37 (a) Within three business days of mailing the notice required by G.S. 45-102, the
38 mortgage servicer shall file certain information with the Administrative Office of the
39 Courts. The filing shall be in an electronic format, as designated by the Administrative
40 Office of the Courts, and shall contain the name and address of the borrower and the
41 date the notice was mailed to the borrower.

42 (b) As permitted by applicable State and federal law, optional information may
43 be requested from the mortgage servicer to facilitate further review by the State Home
44 Foreclosure Prevention Project described in G.S. 45-104. The nature of the optional

1 information requested shall be determined in connection with the design of the database
2 established by subsection (c) of this section. This optional information shall be used by
3 the State Home Foreclosure Prevention Project to prioritize efforts to reach borrowers
4 most likely to avoid foreclosure and to prevent delay for defaults where foreclosure is
5 unavoidable.

6 (c) No later than October 1, 2008, the Administrative Office of the Courts shall
7 establish an internal database to track information provided in this section. The
8 Commissioner of Banks shall design and develop this database, in consultation with the
9 Administrative Office of the Courts, in a manner to promote the efforts of the State
10 Home Foreclosure Prevention Project. Only the Administrative Office of the Courts, the
11 Office of Commissioner of Banks, and the clerk of court as provided by G.S. 45-107
12 shall have access to the database.

13 **"§ 45-104. State Home Foreclosure Prevention Project.**

14 The Commissioner of Banks is authorized to establish the State Home Foreclosure
15 Prevention Project. The purpose of the Project is to seek solutions to avoid foreclosures
16 for certain subprime loans. In developing the Project, the Commissioner may include
17 input from HUD approved housing counselors, community organizations, state
18 agencies, mortgage lenders, mortgage servicers, and other partners.

19 **"§ 45-105. Extension of foreclosure process.**

20 The Commissioner of Banks shall review information provided in the database
21 created by G.S. 45-103 to determine which subprime loans are appropriate for efforts to
22 avoid foreclosure. If the Commissioner reasonably believes, based on a full review of
23 the loan information, the mortgage servicer's loss mitigation efforts, the borrower's
24 capacity and interest in staying in the home, and other appropriate factors, that further
25 efforts by the State Home Foreclosure Prevention Project offer a reasonable prospect to
26 avoid foreclosure on primary residences, the Commissioner shall have the authority to
27 extend one time under this Article the allowable filing date for any foreclosure
28 proceeding on a primary residence by up to 30 days beyond the earliest filing date
29 established by the pre-foreclosure notice. If the Commissioner makes the determination
30 that a loan is subject to this section, the Commissioner shall notify the borrower,
31 mortgage servicer, and the Administrative Office of the Courts.

32 **"§ 45-106. Use and privacy of records.**

33 The data provided to the Administrative Office of the Courts pursuant to
34 G.S. 45-103 shall be exclusively for the use and purposes of the State Home Foreclosure
35 Prevention Project developed by the Commissioner of Banks in accordance with
36 G.S. 45-104. The information provided to the database is not a public record, except that
37 a mortgage lender and a mortgage servicer shall have access to the information
38 submitted only with regard to its own loans. Provision of information to the
39 Administrative Office of the Courts for use by the State Home Foreclosure Prevention
40 Project shall not be considered a violation of G.S. 53B-8. A mortgage servicer shall be
41 held harmless for any alleged breach of privacy rights of the borrower with respect to
42 the information the mortgage servicer provides in accordance with this Article.

43 **"§ 45-107. Foreclosure filing.**

1 (a) For the duration of the program authorized by this Article, foreclosure notices
2 filed on subprime loans on or after November 15, 2008, shall contain a certification by
3 the filing party that the pre-foreclosure notice required by G.S. 45-102 and the
4 pre-foreclosure information required by G.S. 45-103 were provided in accordance with
5 this Article and that the periods of time established by the Article have elapsed.

6 (b) The Clerk of Superior Court or other judicial officer may have access to the
7 pre-foreclosure database to confirm information provided in subsection (a) of this
8 section. A materially inaccurate statement in the certification shall be cause for
9 dismissal without prejudice of any foreclosure proceeding on a primary residence
10 initiated by the mortgage servicer and for payment by the filing party of costs incurred
11 by the borrower in defending the foreclosure proceeding."

12 **SECTION 2.** G.S. 45-21.16 is amended by adding a new subsection to read:

13 "(c2) In any foreclosure filed on or after November 15, 2008, where the underlying
14 mortgage debt is a subprime loan as defined in G.S. 45-101(4), the notice required by
15 subsection (b) of this section shall contain a certification by the filing party that the
16 pre-foreclosure notice and information required by G.S. 45-102 and G.S. 45-103 were
17 provided in all material respects and that the periods of time established by Article 11 of
18 this Chapter have elapsed."

19 **SECTION 3.** G.S. 45-21.16(d) reads as rewritten:

20 "(d) The hearing provided by this section shall be held before the clerk of court in
21 the county where the land, or any portion thereof, is situated. In the event that the
22 property to be sold consists of separate tracts situated in different counties or a single
23 tract in more than one county, only one hearing shall be necessary. However, prior to
24 that hearing, the mortgagee or trustee shall file the notice of hearing in any portion of
25 the property to be sold is located. Upon such hearing, the clerk shall consider the
26 evidence of the parties and may consider, in addition to other forms of evidence
27 required or permitted by law, affidavits and certified copies of documents. If the clerk
28 finds the existence of (i) valid debt of which the party seeking to foreclose is the holder,
29 (ii) default, (iii) right to foreclose under the instrument, ~~and~~(iv) notice to those entitled
30 to such under subsection (b), and (v) that the underlying mortgage debt is not a
31 subprime loan as defined in G.S. 45-101(b), or if the loan is a subprime loan under
32 G.S. 45-101(b), that the pre-foreclosure notice under G.S. 45-102 was provided in all
33 material respects and that the periods of time established by Article 11 of this Chapter
34 have elapsed, then the clerk shall authorize the mortgagee or trustee to proceed under
35 the instrument, and the mortgagee or trustee can give notice of and conduct a sale
36 pursuant to the provisions of this Article. A certified copy of any authorization or order
37 by the clerk shall be filed in any other county where any portion of the property to be
38 sold is located before the mortgagee or trustee may proceed to advertise and sell any
39 property located in that county. In the event that sales are to be held in more than one
40 county, the provisions of G.S. 45-21.7 apply."

41 **SECTION 4.(a)** If House Bill 2436, 2008 Regular Session, becomes law,
42 Section 6.9A(1) of that act reads as rewritten:

43 "**SECTION 6.9A.** The General Assembly finds that homeownership is the primary
44 means by which families and individuals of low and moderate incomes build wealth.

1 The General Assembly further finds that homeownership and a healthy housing market
2 are essential to the health and economic vitality of North Carolina. To help stabilize the
3 housing market, the General Assembly provides in excess of fourteen million dollars
4 (\$14,000,000) in funding for and support of the following initiatives:

- 5 (1) ~~\$1,000,000~~ \$600,000 in nonrecurring funds from the State Banking
6 Commission for counseling services to assist homeowners at risk of
7 ~~foreclosure.~~ foreclosure and \$400,000 in nonrecurring funds from the
8 State Banking Commission to implement the Emergency Home
9 Foreclosure Reduction Program as provided in House Bill 2623, 2008
10 Regular Session.

11 ..."

12 **SECTION 4.(b)** If House Bill 2436, 2008 Regular Session, becomes law,
13 Section 13.6B of that act reads as rewritten:

14 "**SECTION 13.6B.(a)** The Commissioner of Banks shall use ~~one million dollars~~
15 ~~(\$1,000,000)~~ six hundred thousand dollars (\$600,000) of the funds available to the State
16 Banking Commission in the 2008-2009 fiscal year to make grants to nonprofit
17 counseling agencies in the State that are designated and approved by the North Carolina
18 Housing Finance Agency. Grants made under this section shall be used to provide
19 housing counseling and related services to help homeowners avoid home loss and
20 foreclosure and to preserve home equity. Grants may also be used to provide training
21 for counselors.

22 "**SECTION 13.6B.(b)** The State Banking Commission shall report to the Joint
23 Legislative Commission on Governmental Operations regarding the implementation of
24 ~~this program~~ the program in subsection (a) of this section by February 15, 2009.

25 "**SECTION 13.6B.(c)** The Commissioner of Banks shall use four hundred thousand
26 dollars (\$400,000) of the funds available to the State Banking Commission in the
27 2008-2009 fiscal year to implement the Emergency Home Foreclosure Reduction
28 Program as provided in House Bill 2623, 2008 Regular Session."

29 **SECTION 5.** The Office of the Commissioner of Banks shall report to the
30 General Assembly describing the operation of the program established by this act not
31 later than May 1 of each year until the funds are completely disbursed from the reserve.
32 Information in the report shall be presented in aggregate form and may include the
33 number of clients helped, the effectiveness of the funds in preventing home foreclosure,
34 recommendations for further efforts needed to reduce foreclosures, and provide any
35 other aggregated information the Commissioner determines is pertinent or that the
36 General Assembly requests.

37 **SECTION 6.** Section 4 of this act becomes effective July 1, 2008. The
38 remainder of this act becomes effective November 1, 2008, and expires on October 31,
39 2010.