

Director's Office, 350 Winter St. NE, Room 200, Salem, Oregon 97301-3878

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For more information:
Kevin Anselm, 503-947-7498 or
Lisa Morawski, 503-947-7897

State takes enforcement action against four mortgage brokers

Cases involve unethical behavior, falsified loan documents, training requirements

(Salem) -- In its continuing effort to strengthen enforcement in the mortgage lending industry, the Oregon Department of Consumer and Business Services issued cease-and-desist orders and fines against four mortgage companies for violating Oregon's mortgage lending laws.

"Investigating complaints and taking enforcement actions when necessary are important ways we protect borrowers and prevent fraud in the mortgage market," said David Tatman, administrator of the department's Division of Finance and Corporate Securities. "These cases show there are strong consequences when mortgage companies engage in deceptive or fraudulent practices and supervisors don't diligently oversee their employees."

The department, through the Division of Finance and Corporate Securities (DFCS), took actions against the following companies:

- **Allegiance Mortgage, LLC.** DFCS revoked the mortgage lending license of Allegiance Mortgage of Springfield for failing to supervise its loan originators and submitting fraudulent financial information to the department. The division also issued a cease-and-desist order and levied a \$50,000 fine against Allegiance and owner Brian Fallini for allowing its loan originators to falsify mortgage loan applications to obtain loans. Fallini also was fined \$35,000 for overstating the company's financial position on statements submitted to the division. The division suspended the \$35,000 fine provided Fallini does not violate any provision of Oregon Mortgage Lending Laws. He is permanently banned from owning a mortgage lending company or operating or working in the mortgage lending industry.

The revocation and fines follow federal action against Allegiance, its owner, and two of its employees. After a joint investigation by the FBI and the Division of Finance and Corporate Securities, the U.S. Department of Justice indicted two Allegiance employees on federal wire fraud charges stemming from the falsified loan applications. Mark Harless was convicted in 2007 and is serving three years probation; the other, Hein Williams, Eugene, entered into a diversion program. In connection with the joint federal investigation, DFCS issued a cease-and-desist order and a \$20,000 fine against Williams. The fine is suspended for five years provided he complies with all provisions of the order. Williams is prohibited from applying for or renewing any mortgage lending, securities, insurance, or consumer lending license and may not act as a loan originator in Oregon.

- **Diamond Financial Mortgage Group of America Inc.** In the second case, DFCS revoked the license of Diamond Financial Mortgage of Tigard for fraudulent transactions. The division formerly issued an order against Diamond in 2006, then owned by Kevin Covington, for violations of the Oregon Mortgage Lending Laws and assessed civil penalties totaling \$90,000. After receiving a new customer complaint, the division found that Covington participated in a "straw man" transaction –

using a third party to secure a home loan in place of a loan applicant who has been turned down. During the course of the transaction, Covington submitted fraudulent loan documents, and new co-owner William Tieman notarized closing documents without viewing the signing of the documents. The department imposed and reinstated the remaining civil penalty of \$84,000 from the 2006 order against Covington, and imposed new fines of \$2,500 and \$5,000 against Covington and Tieman, respectively. Covington is barred from serving as an officer, director, or experienced person for a mortgage broker or banker. Tieman's fine is partially suspended provided that he does not violate Oregon Mortgage Lending Laws in the next five years.

- **1st American Inc.** In the third case, DFCS ordered mortgage broker 1st American Inc., Portland, and owner Eric Otterholt, to cease and desist from unethical practices, failure to supervise, and other violations. Loan documents completed by a 1st American Inc. loan originator contained many inaccuracies, and the borrower, an elderly Portland resident, received significantly less money than promised and less than loan documents stated. The department fined 1st American and Otterholt \$15,000, with \$11,500 of it suspended if Otterholt fully complies with the terms of the order and commits no further violations of the Oregon Mortgage Lender Laws.
- **Pacific Crest Funding, Inc.** In the fourth case, the division issued cease-and-desist orders against mortgage broker Pacific Crest Funding Inc. of Eugene for failing to supervise a loan originator, and one of its loan originators for failing to complete training. The company repeatedly disregarded the department's requirement, after warnings, to show that its loan originator and co-owner, Dean Schmidt, had completed his required training. Schmidt continued to complete loan transactions in spite of Pacific Crest's assurances to the department that he would not do so until he completed his training and education. Pacific Crest was fined \$20,000 with \$10,000 suspended provided the company does not violate Oregon Mortgage Lender Laws for four years. Schmidt was fined \$5,000 with \$4,000 suspended for a four-year period provided he does not violate any provision of the Oregon Mortgage Lender Laws.

The Department of Consumer and Business Services has put additional resources into mortgage lending enforcement to address concerns about the industry. So far in 2008, it has revoked five mortgage lending licenses and issued 30 enforcement orders. Also, more than 60 mortgage lending investigations are under way. Senate Bill 1064, passed by the 2008 Legislature, took effect in May and gives the department expanded enforcement over loan originators who sell mortgage loans to consumers. Also in May, the department adopted new, stricter rules to prevent misleading advertising in mortgage lending.

For more on what the department has done to address mortgage lending, please visit:

http://egov.oregon.gov/DCBS/docs/5_08_ml_actions.pdf.

For information on mortgage lenders, you can call the Division of Finance and Corporate Securities toll-free 866-814-9710, 503-378-4140 in Salem, or go to www.dfcs.oregon.gov.

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The Division of Finance and Corporate Securities helps ensure that a wide range of financial products and services are available to Oregonians and protects consumers from financial fraud and abuse. It does that by licensing financial institutions and service providers, regulating the sale of securities in Oregon, investigating complaints and alleged violations of financial-service laws, and providing education and other resources to consumers.

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.