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7 
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9 [Additional Counsel on the
10 Following Pages]

11 UNITED STATES DISTRICT COURT
12 FOR THE CENTRAL DISTRICT OF CALIFORNIA
13 SANTA ANA DIVISION

14 THE PEOPLE OF THE STATE OF
15 CALIFORNIA, THE STATE OF
16 ARIZONA, THE STATE OF FLORIDA,
17 THE PEOPLE OF THE STATE OF
ILLINOIS, THE COMMONWEALTH OF
18 MASSACHUSETTS, AND THE NEW
YORK STATE BANKING
DEPARTMENT,

19 Plaintiffs,

20 v.

21 FIRST ALLIANCE MORTGAGE
22 COMPANY, *et al.*,

23 Defendants.
24

25 In re:

26 FIRST ALLIANCE MORTGAGE
27 ZOMPANY, *et al.*,

28 Debtors.

Case No. CV 00-964 DOC (EEx)

(Related to Case Nos. SA CV 01-
1174, SA CV 01-139, SA CV 01-
306)

(Bankruptcy Case Nos. SA 00-
12370 LR, SA 00-12371 LR, SA
00-12372 LR. and SA 00-12373
LR (Jointly Administered))

PERMANENT INJUNCTION
AND ORDER BY
STIPULATION BETWEEN
THE PLAINTIFFS, THE
PEOPLE OF THE STATES OF
CALIFORNIA, ARIZONA,
FLORIDA, AND ILLINOIS,
THE COMMONWEALTH OF
MASSACHUSETTS, AND THE
NEW YORK STATE BANKING
DEPARTMENT, AND THE
DEFENDANTS, JEFFREY
SMITH, PATTY SULLIVAN,
AND SALAH BASTAWY

JANET NAPOLITANO, Attorney General
ROBERT ZUMOFF, Chief Counsel
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Attorney *for* Claimant, New York State Banking Department

1 First Alliance Mortgage Company, a California corporation, and First Alliance
2 Corporation, in this Court on October 31, 2001, and consolidated under Case No.
CV 00-964 DOC (EEx) (hereinafter, the “California Action”);

4 2. The Third Amended Proof of Claim filed by the State of
6 Arizona on July 20, 2001, in the United States Bankruptcy Court, Central District
of California, in *In re First Alliance Mortgage Company, et al.*, Case No. SA 00-
7 12370 LR (hereinafter, the “Arizona Action”);

8 3. The complaint filed by the State of Florida against Defendants
9 Brian Chisick, Sarah Chisick, Patty Sullivan, Jeffrey Smith, Bruce Bollong,
10 Francisco Nebot, First Alliance Mortgage Company, a California corporation,
11 First Alliance Mortgage Company, a Minnesota corporation, and First Alliance
12 Corporation, in this Court on November 14, 2001, under Case No. 00-964 DOC
13 (EEx) (hereinafter, the “Florida Action”);

14 4. The Third Amended Complaint filed by the People of the State
15 of Illinois against Defendants Brian Chisick, Sarah Chisick, Salah Bastawy, Patty
16 Sullivan, First Alliance Mortgage Company, a California corporation, and First
17 Alliance Corporation, in this Court on January 21, 2002 under Case No. CV 00-
18 364 DOC (EEx) (hereinafter, the “Illinois Action”);

19 5. The proof of claim filed by the Commonwealth of
20 Massachusetts on September 10, 2000, in the United States Bankruptcy Court,
21 Central District of California, in *In re First Alliance Mortgage Company, et al.*,
22 Case No. SA 00-12370 LR (hereinafter, “Massachusetts Action”); and

23 6. The proof of claim filed by the New York State Banking
24 Department on September 19, 2000, in the United States Bankruptcy Court,
25 Central District of California, in *In re First Alliance Mortgage Company, et al.*,
26 Case No. SA 00-12370 LR (hereinafter the “New York Action”).

27 B. The Court deems the proofs of claim filed herein by the States of
28 Arizona and New York and the Commonwealth of Massachusetts and identified in

1 Paragraph A herein to be complaints properly filed in this Court and consolidated
2 in this action.

3 C. The parties have agreed to the entry of this Order, as set forth in
4 Paragraph V herein.

5 D. The Individual Defendants have waived all rights to challenge or
6 contest the validity of this Order.

7 E. The Order has been reviewed by the Court and it is found to have
8 been entered into in good faith and to be in all respects just, reasonable, and
9 equitable.

10 NON-ADMISSION OF WRONGDOING AND LIABILITY

11 F. The Individual Defendants deny, and continue to deny, each and all
12 of the claims and contentions alleged by the States in the Actions. The Individual
13 Defendants have expressly denied and continue to deny all charges of wrongdoing
14 or liability against the Individual Defendants arising out of or related to any of the
15 conduct, statements, acts or admissions alleged, or that could have been alleged, in
16 the Actions. Nothing in the Order shall be or may be construed by any person as
17 an admission of wrongdoing or liability by the Individual Defendants.

18 DEFINITIONS

19 G. For the purposes of this Order, the terms used herein shall be
20 defined as follows:

21 1. The term "TILA" means the Truth-In-Lending Act, 15 U.S.C.
22 §§ 1601, *et seq.*, as amended, and its implementing rule, Regulation Z, 12 C.F.R.
23 Part 226, as amended.

24 2. The term "Amount Financed" has the same meaning as that
25 term is defined by TILA.

26 3. The term "Annual Percentage Rate" has the same meaning
27 as that term is defined by TILA.

28 4. The term "Related Debtors" means First Alliance Mortgage

1 Company, a California corporation, First Alliance Mortgage Company, a
2 Minnesota corporation, First Alliance Corporation, a Delaware corporation, and
3 First Alliance Portfolio Services, Inc., a Nevada corporation.

4 5. The term “Finance Charge” has the same meaning as that term
5 is defined by TILA.

6 6. The term “Individual Defendants” means defendants Patty
7 Sullivan, Jeffrey Smith, and Salah Bastawy.

8 7. The term “Loan Origination Fee” means all costs and expenses
9 incurred in originating a Mortgage Loan used in calculating the Annual
10 Percentage Rate, if such costs and expenses are financed.

11 8. The term “Mortgage Loan” means an extension of credit
12 secured by a mortgage, deed of trust, or similar instrument on a consumer’s
13 principal dwelling and includes, but is not limited to, personal consumer loans,
14 home mortgage loans, home purchase loans, home equity loans, home
15 improvement loans, credit lines, revolving credit, and refinancing of all the
16 foregoing, so long as such loans are secured by the consumer’s principal dwelling.

17 9. The term “Person” means any natural person, corporate entity,
18 partnership, limited partnership, association, joint venture, trust, or other business
19 entity.

20 10. The term (“States” means the State of California, the State of
21 Arizona, the State of Florida, the State of Illinois, the Commonwealth of
22 Massachusetts, and the New York State Banking Department. The term “State”
23 means any one of the States.

24 11. The term “Stipulation” means the Stipulation of Settlement
25 herein signed by the States and the Individual Defendants on February 25, 2002.

26 INJUNCTION

27 H. Pursuant to California Business & Professions Code §§ 17203 and
28 17535, Chapter 501, Part II, of the Florida Statutes, the Massachusetts Consumer

1 Protection Act, G.L. c. 93A, § 4, Section 7 of the Illinois Consumer Fraud Act,
2 815 ILCS 505/7 (2002), the Arizona Consumer Fraud Act, **A.R.S.** §§ 44-1521 to
3 1534, and New York General Business Law § 349(b), Defendants Patty Sullivan
4 and Jeffrey Smith and all those Persons in active concert or participation with
5 them who receive actual notice of this Order by personal service or otherwise,
6 whether acting directly or through any entity, corporation, subsidiary, division, or
7 other device, are hereby permanently restrained and enjoined in the Mortgage
8 Loan business in connection with the advertising, marketing, solicitation,
9 brokering, origination, closing, offering for sale, or sale of credit to consumers,
10 from doing any of the following in the States of Arizona, California, Florida,
11 Illinois, and New York and the Commonwealth of Massachusetts:

12 1. making, or causing or assisting others to make, expressly or by
13 implication, any false or misleading representation about the terms, costs, or other
14 conditions of any Mortgage Loan, including, but not limited to, misrepresenting:

15 a. the monthly payment amount, interest rate, Annual
16 Percentage Rate, Finance Charge, principal loan amount, loan term, or any other
17 term of repayment;

18 b. the terms of any adjustable rate Mortgage Loan,
19 including, but not limited to:

20 i. the manner in which the interest rate or monthly
21 payments on the loan adjusts over time, and

22 ii. the relationship between adjustments in the
23 interest rates, any index rate, and the initial rate;

24 c. the existence, absence, terms, or amount of any Loan
25 Origination Fees;

26 d. whether prepaid finance charges, such as the Loan
27 Origination Fees, are part of the interest payments on the loan; and

28 e. the amount borrowed and upon which interest accrues.

1 2. making, or causing or assisting others to make, a false,
2 misleading or deceptive claim that consumers will save money when consolidating
3 debt.

4 3. violating TILA by doing the following:

5 a. failing to provide consumers with the booklet titled
6 *Consumer Handbook on Adjustable Rate Mortgages* or a suitable substitute, as
7 required by Section 226.19(b)(1) of Regulation Z 12 C.F.R. § 226.19(b)(1);

8 b. failing to comply with any other provision of TILA.

9 I. Pursuant to the Illinois Consumer Fraud Act, 815 ILCS 505/7 (2002),
10 the Massachusetts Consumer Protection Act, G.L. c. 93A, and the Arizona
11 Consumer Fraud Act, A.R.S. §§ 44-1521 to 1534, Defendant Salah Bastawy and
12 all those Persons in active concert or participation with them who receive actual
13 notice of this Order by personal service or otherwise, whether acting directly or
14 through any entity, corporation, subsidiary, division, or other device, are hereby
15 permanently restrained and enjoined in the Mortgage Loan business in connection
16 with the advertising, marketing, solicitation, brokering, origination, closing,
17 offering for sale, or sale of credit to consumers, from doing any of the following in
18 the States of Illinois and Arizona and the Commonwealth of Massachusetts:

19 1. making, or causing or assisting others to make, expressly or by
20 implication, any false or misleading representation about the terms, costs, or other
21 conditions of any Mortgage Loan, including, but not limited to, misrepresenting:

22 a. the monthly payment amount, interest rate, Annual
23 Percentage Rate, Finance Charge, principal loan amount, loan term, or any other
24 term of repayment;

25 b. the terms of any adjustable rate Mortgage Loan,
26 including, but not limited to:

27 i. the manner in which the interest rate or monthly
28 payments on the loan adjusts over time, and

- ii. the relationship between adjustments in the interest rates, any index rate, and the initial rate;
 - c. the existence, absence, terms, or amount of any Loan Origination Fees;
 - d. whether prepaid finance charges, such as the Loan Origination Fees, are part of the interest payments on the loan; and
 - e. the amount borrowed and upon which interest accrues.
2. making, or causing or assisting others to make, a false, misleading or deceptive claim that consumers will save money when consolidating debt.
 3. violating TILA by doing the following:
 - a. failing to provide consumers with the booklet titled *Consumer Handbook on Adjustable Rate Mortgages* or a suitable substitute, as required by Section 226.19(b)(1) of Regulation Z 12 C.F.R. § 226.19(b)(1);
 - b. failing to comply with any other provision of TILA.

MONITORING

J. Each State which has reason to believe a violation of this Order has occurred shall have authority to make a written request for all business records or information reasonably necessary to accomplish full and complete evaluation of the Individual Defendants' compliance with the injunctive provisions of this Order in its State. The State shall mail, by overnight mail, such written request to the individual Defendant at the most recent non-business mailing address provided to the State pursuant to Paragraphs O and P herein. The Individual Defendant shall have fifteen (15) days after receipt of such written request to either (1) provide the State with the requested records or information or (2) notify the State that the individual Defendant is not able to provide the requested records or information and specify the reason they are unable to provide such records and information. In the event the State receives notice that the Individual Defendant is not able to

provide the requested records and information, the State has the authority to seek the requested records and information pursuant to applicable law. Nothing in this Paragraph J shall prevent the State from employing any other investigative method permitted by law.

ENFORCEMENT

K. Each State shall have full authority to enforce this Order and to seek any relief permitted by law in this Court, in the event the Individual Defendants violate any of the above terms with respect to residents of that State.

L. Prior to initiation of proceedings to enforce this Order, any State which has reason to believe a violation of this Order has occurred shall provide ten (10) days' written notice to the Individual Defendant(s) alleged to have violated this Order setting forth the nature of any alleged violation of this Order. The State shall mail this notice by first class mail to the Individual Defendant at the most recent non-business address provided pursuant to Paragraphs O and P herein. After such notice is mailed, nothing in this Order shall be construed to prevent the State which believes a violation has occurred from initiating any proceeding to enforce this Order, at any such time as such State deems appropriate. In the event the State which has reason to believe a violation of this Order has occurred, using its best judgment, deems that the alleged violation constitutes, has created or threatens to imminently create an emergency situation, the notice provided for in this Paragraph L shall not be required.

M. The States agree that they shall not record this Order in any recorder's office in any city, county or state in the United States.

NOTIFICATION REQUIREMENTS

N. For a period of five (5) years after this Order goes into effect, to the extent any Individual Defendant is employed (whether as a W-2 employee, an uncompensated consultant, or a 1099 contract employee) or owns a significant interest, directly or indirectly, in a Mortgage Loan business which does business in

1 any State where such Individual Defendant is subject to this Order pursuant to
2 Paragraph H or I herein, such Individual Defendant shall notify each such State of
3 the name, address and telephone number of the Mortgage Loan business and a
4 description of the Individual Defendant's duties and responsibilities in connection
5 with the Mortgage Loan business. Except for any necessary enforcement
6 proceedings, all communications between the States and the Individual
7 Defendants shall be at the non-business mailing address of the Individual
8 Defendants provided pursuant to Paragraph O herein.

9 O. For a period of five (5) years after the date this Order goes into effect,
10 each Individual Defendant shall notify each State where such Individual
11 Defendant is subject to this Order pursuant to Paragraph H or I herein of his or her
12 non-business mailing address.

13 P. For a period of five (5) years after the date this Order goes into effect,
14 each Individual Defendant shall notify each State where such Individual
15 Defendant is subject to this Order pursuant to Paragraph H or I herein of any
16 change in the information provided in Paragraphs N or O herein, within thirty (30)
17 days of any such change. Such notice shall include the information required by
18 Paragraphs N or O, whichever is applicable.

19 Q. All communications with the State(s) regarding Paragraphs N, O, or
20 P of this Order are to be addressed to the State(s) at the addresses set forth below,
21 and must clearly indicate that said communications refer to "FAMCO Notices."

22 1. Robyn Smith, Deputy Attorney General, Office of the Attorney
23 General, State of California, 300 South Spring Street, Suite 5000, Los Angeles,
24 CA, 90013, attn.: *FAMCO Notices*.

25 2. Judith Whiting, Pamela Kogut, Assistant Attorneys General,
26 Consumer Protection and Antitrust Division, Office of the Attorney General,
27 Commonwealth of Massachusetts, One Ashburton Place, Boston, MA, 02108,
28 attn.: *FAMCO Notices*.

1 3. Kenneth Bielmeier, Assistant Deputy Superintendent,
2 Mortgage Banking Division, New York State Banking Department, 2 Rector
3 Street, New York, NY, 10006, attn.: *FAMCO Notices*.

4 4. Hugh Hegyi, Assistant Attorney General, or Robert Zumoff,
5 Chief Counsel, Consumer Protection and Advocacy Section, Office of the
6 Attorney General, State of Arizona, 1275 West Washington, Phoenix, Arizona,
7 85007, attn.: *FAMCO Notices*.

8 5. Tom James, Assistant Attorney General, Consumer Fraud
9 Bureau, Office of the Illinois Attorney General, 100 West Randolph Street,
10 Chicago, Illinois, 60601, attn.: *FAMCO Notices*.

11 6. Stephen A. LeClair, Assistant Attorney General, Office of the
12 Attorney General, State of Florida, 110 S.E. 6th Street, 9th Floor, Fort Lauderdale,
13 FL, 33301, attn.: *FAMCO Notices*.

14 RELEASE OF PARTIES AND NON-PARTIES

15 R. This Order satisfies all conditions in Paragraph 4.12 of the Stipulation
16 regarding consent decrees. The Individual Defendants and the States shall provide
17 all the releases as set forth in the Stipulation.

18 S. Upon entry of this Order, Defendant Jeffrey Smith agrees to waive
19 and release any and all claims he has asserted against the bankruptcy estates of the
20 Related Debtors. In the event, however, the Stipulation does not go into effect and
21 becomes void, as set forth therein, Defendant Jeffrey Smith's waiver and release of
22 any and all claims he asserted against the bankruptcy estates of the Related
23 Debtors shall be void.

24 RETENTION OF JURISDICTION

25 T. Jurisdiction is retained by this Court for the purpose of enabling any
26 party to the Order to apply to the Court at any time for such further orders and
27 directions as may be necessary or appropriate for the construction or the carrying
28 out of this Order, for enforcement of compliance herewith, and for the punishment

1 of violations hereof, if any.

2 U. The effective date of this Order shall be five (5) days after the date
3 when the last of the conditions set forth in Paragraph 7.1 of the Stipulation has
4 either been satisfied or expressly waived in a writing signed by all counsel for the
5 Coordinated Plaintiffs and counsel for the Defendants, as those terms are defined
6 in the Stipulation.

7 V. The Individual Defendants and the States hereby consent to entry of
8 the foregoing Order, which, upon entry of a final order approving class action
9 settlement, as set forth in the Stipulation, shall constitute a final order on the
10 Actions.

11 IT IS SO ORDERED, this ___ day of _____, 2002.


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14 HONORABLE DAVID O. CARTER
15 United States District Court Judge
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The parties hereby STIPULATE AND AGREE TO the terms and conditions set forth above and consent to the entry of this Permanent Injunction and Order by Stipulation.

Plaintiffs:

DATED: March 4, 2002

BILL LOCKYER
Attorney General
State of California



By: Herschel I. Elkins
Senior Assistant Attorney General
300 So. Spring Street, Suite 5000
Los Angeles, California 90013

Attorneys for the Plaintiff the People of the
State of California

DATED: March 1, 2002

JANET NAPOLITANO,
Arizona Attorney General

By: Hugh Hegyi
Assistant Attorney General
1275 West Washington Street
Phoenix, AZ 85007-2997

Attorneys for the State of Arizona

The parties hereby STIPULATE AND AGREE TO the terms and conditions set forth above and consent to the entry of this Permanent Injunction and Final Order by Stipulation.

Plaintiffs:

DATED: March __, 2002

BILL LOCKYER
Attorney General
State of California

By: Herschel T. Elkins
Senior Assistant Attorney General
300 So. Spring Street, Suite 5000
Los Angeles, California 90013

Attorneys for the Plaintiff the People of the State of California

DATED: March 1, 2002

JANET NAPOLITANO,
Arizona Attorney General

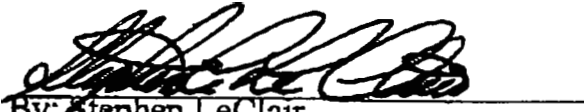
Hugh Hegyi (subject to Gen. Napolitano approval)
By: Hugh Hegyi
Assistant Attorney General
1275 West Washington Street
Phoenix, AZ 85007-2997

Attorneys for the State of Arizona

Post-It® Fax Note	7671	Date	3/1/02	# of pages	1
To	<i>Rodney Smith</i>	From	<i>Hegyi</i>		
Co./Dept.		Co.			
Phone #		Phone #	<i>602 542-7717</i>		
Fax #	<i>615 897-4957</i>	Fax #			

DATED: March 1, 2002

ROBERT A. BUTTERWORTH
Attorney General
State of Florida



By: Stephen LeClair
Assistant Attorney General
110 S.E. Sixth Street, Ninth Floor
Ft. Lauderdale, FL 33301



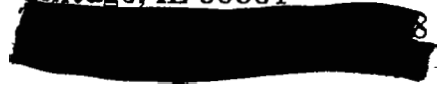
Attorneys for the State of Florida

8

DATED: March __, 2002

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Attorney General
State of Illinois

by: Tom James
Assistant Attorney General
100 W. Randolph Street
Chicago, IL 60601



Attorneys for the People of the
State of Illinois

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DATED: March __, 2002

THOMAS F. REILLY
Attorney General
Commonwealth of Massachusetts

By: Judith Whiting
Assistant Attorney General
Consumer Protection and Antitrust
Division
One Ashburton Place
Boston, MA 02108



Attorneys for the Commonwealth of
Massachusetts

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1 **DATED:** March __, 2002

ROBERT A. BUTTERWORTH
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5 By: Stephen LeClair
Assistant Attorney General
110 S.E. Sixth Street, Ninth Floor
6 Ft. Lauderdale, FL 33301

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8 Attorneys for the State of Florida

9 **DATED:** March 1, 2002

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11 State of Illinois

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13 By: Tom James
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14 100 W. Randolph Street
Chicago, IL 60601

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16 Attorneys for the People of the
17 State of Illinois

18 **DATED:** March __, 2002

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Attorney General
20 Commonwealth of Massachusetts

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22 By: Judith Whiting
Assistant Attorney General
23 Consumer Protection and Antitrust
Division
24 One Ashburton Place
Boston, MA 02108

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26 Attorneys for the Commonwealth of
27 Massachusetts

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MAR-01-2002 01:47PM FROM-

1 DATED: March __, 2002

ROBERT A. BUTTERWORTH
Attorney General
State of Florida

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By: Stephen LeClair
Assistant Attorney General
110 S.E. Sixth Street, Ninth Floor
Ft. Lauderdale, FL 33301

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Attorneys for the State of Florida

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10 DATED: March __, 2002

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Attorney General
State of Illinois

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by: Tom James
Assistant Attorney General
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Chicago, IL 60601

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Attorneys for the People of the
State of Illinois

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20 DATED: March 1, 2002

THOMAS F. REILLY
Attorney General
Commonwealth of Massachusetts

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By: Judith Whiting
Assistant Attorney General
Consumer Protection and Antitrust
Division
One Ashburton Place
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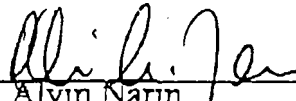
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Attorneys for the Commonwealth of
Massachusetts

28

DATED: March 1, 2002

NEW YORK STATE BANKING
DEPARTMENT


By: Alvin Narin
Assistant Counsel
2 Rector Street
New York, NY 10006



Attorney for the New York State Banking
Department

Defendants:

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DATED: March __, 2002

PATTY SULLIVAN, individually

DATED; March __, 2002

JEFFREY SMITH, individually

DATED: March — 2002

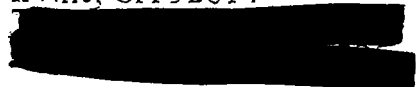
SALAH BASTAWY, individual ty

Approved as to Form:

DATED: March __, 2002

PALMIERI, TYLER, WIENER
WILHELM & WALDRON, LLP

Charles H. Kanter
Main Street, Suite 1300
Irvine, CA 92614



Attorneys for Patty Sullivan

1 DATED: March __, 2002

NEW YORK STATE BANKING
DEPARTMENT

2

3 1

4

By: Alvin Nann
Assistant Counsel
2 Rector Street
New York, NY 10006

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Attorney for the New York State Banking
Department

Defendants:

1

1 DATED: March L, 2002


PATTY SULLIVAN, individually

12

14 DATED: March L, 2002


JEFFREY SMITH, individually

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17 DATED: March __, 2002

SALAH BASTAWY, individually

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Approved as to Form:

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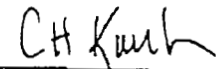
21 DATED: March 1, 2002

PALMIERI, TYLER, WIENER,
WILHELM & WALDRON, LLP

22

23

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By: Charles H. Kanter
2603 Main Street, Suite 1300
Irvine, CA 92614

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Attorneys for Patty Sullivan

Stipulated Permanent Injunction and Order

03/01/02 FRI 16:36 FAX 830 271 1079

G T S

Mar-01-02 02:18pm From-

T-053 P.02/02 F-980

10025 P.018/018 P-012

DATED: March __, 2002

NEW YORK STATE BANKING DEPARTMENT

By: Alvin Naim
Assistant Counsel
2 Rector Street
New York, NY 10006

Anamcy for the New York State Banking Department

5

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8

9 Defendants:

1

1 DATED: March __, 2002

PATTY SULLIVAN, individually

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7:

1 DATED: March __, 2002

JEFFREY SMITH, individually

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1 DATED: March L, 2002

Salah Bastawy
SALAH BASTAWY, individually

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Approved as to Form:

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2 DATED: March __, 2002

PALMIERI, TYLER, WIENER,
WILHELM & WALDRON, LLP

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By: Charles H. Kanter
2603 Main Street, Suite 1300
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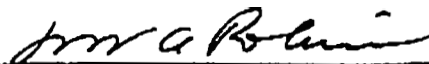
Attorneys for Patty Sullivan

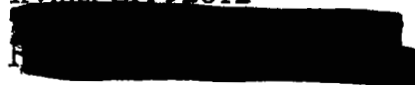
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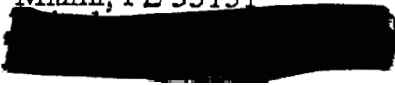


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