

STATE OF NEW HAMPSHIRE
BANKING DEPARTMENT



Examined By: H. Kurt Gillies

Examination Date: 11. October 2004

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

The information contained herein is based upon records of licensee, upon statements made to the examiner by management, officers, and employees; and upon information derived from sources which the examiner considered reliable and correct.

The subject licensee shall under no circumstances publish, or make public in any manner, this report of examination or any portion thereof. This examination remains the property of the State of New Hampshire Banking Department. RSA 383:10-b.

PETER C. HILDRETH
BANK COMMISSIONER

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

The State of New Hampshire Banking Department

**First Mortgage Banker and Broker
REPORT OF EXAMINATION**

DATE	10/11/2004
NAME OF LICENSEE	Financial Resources & Assistance of the Lakes Region, Inc.
ADDRESS	15 Northview Drive
CITY, STATE, ZIP	Meredith, NH, 03253
LICENSE NUMBER	5902-MBB
EXAMINER IN CHARGE	H. Kurt Gillies
TAX ID NUMBER	[REDACTED]

REGULATORY AUTHORITY AND SCOPE OF EXAMINATION:

This regularly scheduled examination was conducted pursuant to New Hampshire RSA 383: 9 and under the provisions of RSA 397-A:12. A review of the licensee's current regulated business activities, operational practices and financial condition was undertaken to determine compliance with NH RSA 397-A as well as applicable federal acts and regulations. The scope of the examination included review of legal documents used to conduct consumer credit business, corporate registration and current lending licenses in other states, consumer complaints filed against the licensee, declined or withdrawn application files, corporate information including a set of audited financial statements for the two fiscal years ended December 31, 2002 and 2003 as well as an un-audited financial statement for the six months ended June 30, 2004, and a Form 1120 U.S. corporate income tax return for 2002. Also reviewed was an employee handbook, a list of lenders with whom the licensee corresponds, local media and website advertising, three completed executive officer questionnaires for the various licensed activities the company may engage in, a list of loan originators employed or retained by the licensee, public privacy policies and custody practices of confidential consumer information obtained by the licensee for lending or brokering purposes. An analysis of a sample of 17 first mortgage loan files originated by the licensee during the 18 month period between March 1, 2003 and August 31, 2004 was also conducted. The examination took place between October 11, 2004 and April 21, 2005.

BACKGROUND:

Financial Resources & Assistance of the Lakes Region, Inc., ("FR&A") is a corporation formed in New Hampshire on May 18, 1989. The company is owned by a sole shareholder, Mr. Scott D. Farah, who also serves as its President. FR&A functions as a first mortgage banker and broker and is also engaged in commercial lines. Commercial lending activities comprise approximately half of the company's revenues while consumer lending and brokering activity make up the other half. Mr. Farah also, operates an insurance business called Insurance Options, co-located with FR&A. The law offices of Michael Gould and Michael Burke, PA are also, co-located with FR&A, operating under a sub-lease agreement according to Mr. Farah. FR&A is currently licensed to conduct residential mortgage activity in 13 states including New Hampshire. The company operates from one location only relative to its New Hampshire business, its licensed principal office in Meredith. FR&A has been licensed as a first and second mortgage banker and broker as well as a small loan lender by the New Hampshire Banking Department ("NHBD") since at least 1997 according to NHBD records. The examination was conducted at the licensee's office in Meredith, NH.

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OBSERVATIONS:

1. Pursuant to NH RSA 397-A:14-a, any advertisement media must contain the disclosure that the licensee is "Licensed by the New Hampshire banking department". Review of some FR&A media, both hardcopy and website, revealed the statutory disclosure was not present.
2. Pursuant to NH RSA 397-A:20, II and the NH Code of Administrative Rules, Part Ban 2407, licensees are required to notify the NHBD of various significant events within one business day of the occurrence. FR&A answered question 10 in the General section of its first mortgage broker/banker officer questionnaire to the effect the licensee is undergoing investigation by another NH state agency; the Bureau of Securities Regulation. President Farah has further stated FR&A was in the midst of a civil suit whereby the purported issues were somehow preventing the licensee from providing the NHBD a complete set of private corporate financial statements for fiscal year 2003. Review of the licensee's records at the NHBD indicates the licensee failed to notify the NHBD of either the investigation or civil suit in accordance with state law.
3. Pursuant to NH RSA 397-A:10, I, licensees are required to conduct their business only under a business or trade name as stated in their license. FR&A was cited for improper disclosure of its business name during the previous NHBD examination conducted in May 2003. Despite representations made in the licensee's response to the previous report of examination that the licensee would correct such improprieties, FR&A continues to disclose business names such as "Financial Resources Inc." and "Financial Resources" on various documentation, including but not limited to mortgage loan applications, good faith estimates, truth in lending disclosure statements, borrower signature authorizations, fair lending notices, borrowers' certification and authorization disclosures, mortgage loan origination agreements and privacy policy disclosures that do not comport with the company's name on its banking license, namely "Financial Resources and Assistance of the Lakes Region, Inc."
4. Pursuant to NH RSA 397-A:17 (e), "The commissioner may by order, upon due notice and opportunity for hearing, assess penalties or deny, suspend, or revoke a license if it is in the public interest and the applicant or licensee...[if the licensee] has made a false or misleading statement to the commissioner or in any reports to the commissioner." In a letter dated August 19, 2003, signed by President Scott Farah and sent to the NHBD in response to the banking department's report of examination conducted on May 19, 2003, FR&A stated relative to its business name and use of the name,
"CHANGE IN NAME-We are in the process of applying for a d/b/a to stay in compliance with this guideline. We would prefer to use Financial Resources, Inc. on all our forms, letterhead, business cards, etc. If, in the event we are denied the d/b/a, we will change our forms, etc to Financial Resources and Assistance of the Lakes Region, Inc."
During the course of this current examination the NH Secretary of State's office, Corporate Division, was contacted via telephone by the examiner. Speaking with an employee in the Corporate Division the examiner was told that not only had the Secretary of State's office not approved any changes in the use of FR&A's business name but had also, not received any application from FR&A requesting a trade name (d/b/a), since the prior examination in 2003.

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5. Pursuant to NH RSA 397-A:13, licensees are required to file a financial statement within 90 days from the date of their fiscal year end. FR&A's fiscal year end is December 31. Financial statements are to include a balance sheet, income statement, statement of changes in owners' equity and a cash flow statement. The licensee filed a financial statement in 2004 within the mandated time period however, not all of the required financial documents were submitted. The documents submitted to the NHBD by FR&A appeared to be excerpts from an audit conducted by a local external CPA firm. The missing documents needed to complete the financial statement were requested from FR&A by the NHBD prior to and again during this examination. Those documents were finally provided on November 8, 2004.
6. Pursuant to NH RSA 397-A:12, III, FR&A was requested to provide a copy of its 2003 federal income tax return for this examination. The licensee was unable to comply with this request and submitted a written statement from its income tax preparer that FR&A's 2003 income tax return is still being prepared and that proper federal extension forms have been filed with the Internal Revenue Service. Copies of the Internal Revenue Service extension forms were requested by the examiners but not provided by the licensee. FR&A provided only a copy of a letter from Phyllis Johansson, manager of the H&R Block branch office in Laconia, NH. In the letter, Ms. Johansson states "the proper federal extension forms have been filed with Internal Revenue Service." FR&A must, as part of its response to this exam, provide the NHBD with copies of the federal extension forms and a copy of its 2003 income tax return upon its completion by H&R Block.
7. Pursuant to NH RSA 397-A:12, I, review of randomly sampled mortgage loan files revealed a letter addressed to Mr. Scott Ferah [sic] from one of its correspondent lenders, First Franklin Financial, claiming that misrepresentations were made relative to a borrower's income as evidenced in documentation FR&A provided to First Franklin Financial. As a consequence, First Franklin Financial asked FR&A to refinance or pay off the loan within 30 days of the date of the letter (12/15/2003). FR&A is requested to provide a full written explanation of the circumstances surrounding its handling of, response to and ultimate resolution of the alleged misrepresentations First Franklin Financial references in its letter to the licensee.
8. Pursuant to the Gramm-Leach-Bliley Act §§ 501 and 502(b)(2) as implemented by the Federal Trade Commission 16 C.F.R. § 314, the examination of FR&A included a review of the licensee's handling, custody and disposal of any confidential documents and information pertaining to its consumer credit activities. The licensee provided an oral presentation as to how sensitive documents and confidential information were collected, retained and disposed of. The banking department examiner in charge was advised that the process of disposing of sensitive documentation required the physical shredding of such documents by two designated employees using a machine at FR&A for that purpose. The examiner in charge asked President Scott Farah if he could physically inspect and collect trash from a dumpster used by the licensee to dispose of waste material from the FR&A office. This was requested in order to verify the disposal process of sensitive confidential consumer mortgage documentation. President Farah gave the bank examiners permission orally, to do so. The bank examiners took custody of two large plastic bags of trash picked from the previously mentioned dumpster located behind the licensee's office. Subsequent analysis of the contents of the two trash bags revealed dozens of sensitive documents containing confidential private consumer information that had not been shredded or

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otherwise disposed of properly. The documents included consumer credit reports, tax returns, real estate appraisals, insurance information and completed uniform residential loan applications from consumers in New Hampshire and other states in which FR&A operates as a mortgage licensee. Specific individual's documents found subject to NHBD jurisdiction (those dated later than May 23, 2003) include: (see attached spread sheet also)



9. Pursuant to the Gramm-Leach-Bliley Act as implemented by the Federal Trade Commission 16 C.F.R. § 314, financial institutions such as mortgage companies must have a written policy outlining their privacy and security procedures and practices. FR&A does not currently have such a written policy.
10. Pursuant to the Real Estate Settlement Procedures Act ("RESPA"), Regulation X, 24 C.F.R. § 3500.8 and Appendix A, Line Item Instructions, Section L, Line 801 is used to record items charged by the Lender. Review of HUD-1 documents found in 17 FR&A loan files examined, eleven disclosed FR&A as the entity charging an amount for a loan origination fee. FR&A acted as the broker only in all transactions noted, never as the Lender. Mortgage broker fees should be disclosed on any one of line numbers 808 through 811, not on line 801. The eleven borrower names, line item and item number and amounts charged are as follows:

<u>Name of Borrower</u>	<u>Loan Origination Fee (line #801)</u>
[REDACTED]	\$1,840.00
[REDACTED]	\$2,900.00
[REDACTED]	\$3,077.00
[REDACTED]	\$2,878.40
[REDACTED]	\$2,175.00
[REDACTED]	\$1,000.00
[REDACTED]	\$2,218.00
[REDACTED]	\$ 800.00
[REDACTED]	\$4,592.00
[REDACTED]	\$3,000.00
[REDACTED]	\$1,600.00

11. Pursuant to RESPA, Regulation X, 24 C.F.R. § 3500.8 and Appendix A, Line Item Instructions, Section L, all items except for those paid to and retained by the Lender, the name of the person or firm ultimately receiving the payment [for the services rendered] should be disclosed on the HUD-1. Review of HUD-1 documents found in 17 FR&A loan files examined, revealed eleven disclosed FR&A as the entity receiving an amount for a real estate appraisal and/or a credit report. FR&A acted as the broker only in all transactions noted, never as the ultimate recipient of the service rendered, in this case as

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the real estate appraiser or as the credit reporting agency. The eleven borrower names, line item description and amounts charged are as follows:

<u>Name of Borrower</u>	<u>Appraisal Fee</u>	<u>Credit Report Fee</u>
[REDACTED]	\$100.00	\$ 15.00
[REDACTED]	—	\$300.00
[REDACTED]	\$300.00	\$ 16.00
[REDACTED]	—	\$ 15.00
[REDACTED]	\$300.00	\$ 15.00
[REDACTED]	—	\$ 15.00
[REDACTED]	\$300.00	\$ 15.00
[REDACTED]	—	\$ 15.00
[REDACTED]	\$250.00	\$ 15.00
[REDACTED]	—	\$ 15.00
[REDACTED]	—	\$ 15.00

12. Pursuant to RESPA, Regulation X, 24 C.F.R. § 3500.7 and Appendix C, Footnotes, if a good faith estimate is being disclosed by a mortgage broker who is not an exclusive agent of the lender, the lender's name will not appear at the top of the form, but the following statement must appear: "This Good Faith Estimate is being provided by [in this case] Financial Resources and Assistance of the Lakes Region, Inc., a mortgage broker, and no lender has yet been found." Review of the 17 FR&A loan files containing a GFE issued by FR&A, revealed eight to not contain the required disclosure. The eight borrower names on the GFE's noted are as follows:

[REDACTED]

13. Pursuant to NH RSA 397-A:15-a and RSA 397-A:17 (e), licensees are required to maintain a complaint file containing records of any and all consumer complaints that are filed with the licensee. FR&A was requested to provide copies of its records relative to complaints received during the previous 18 months. The licensee responded that no complaints were available as none had been received. Information received by the examiner from the NHBD database however, indicated that three complaints had been filed with the NHBD naming FR&A as the subject of a complaint. These complaints were from the following individuals: [REDACTED] and [REDACTED]
14. Pursuant to NH RSA 397-A:3, any person not exempt under RSA 397-A:4 that, in its own name or on behalf of other persons, engages in the business of making or brokering first mortgage loans secured by real property located in New Hampshire are required to obtain a license from the NHBD. The world wide web site "financialresourcesinc.net" is a form of advertising media used by a company called "Financial Resources, Inc.". The site contains reference to a webpage called "About Us". About Us makes explicit reference to the company's founder Scott Farah, that the company is a New Hampshire

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corporation, that the corporation's personnel can answer questions "concerning refinancing first mortgage loans, VA, FHA, Conventional, Conforming and Non-Conforming or any of the programs available." The page states further that "we all need counseling on a home purchase." These quotes are statements that refer unambiguously to residential mortgage activities that under New Hampshire law require a license from the NHBD before engaging in those activities. "Financial Resources, Inc." is not licensed by the NHBD to engage in any residential first mortgage activities as a banker or broker. The only company that is licensed currently to engage in first mortgage activity is "Financial Resources and Assistance of the Lakes Region, Inc." This latter company is also, the only name authorized by the NHBD to be used on any and all advertising, disclosures and legal correspondence used by the licensee in its business relationships with consumers and any other parties engaged or retained by FR&A relative to its residential mortgage activities.

Examiner (Signature)

H. Kurt Gillies

Assistant Director of Consumer Credit (Signature)

Kimothy Griffin

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The State of New Hampshire Banking Department

**Second Mortgage Home Loan Lender
REPORT OF EXAMINATION**

DATE	10/11/2004
NAME OF LICENSEE	Financial Resources & Assistance of the Lakes Region, Inc.
ADDRESS	15 Northview Drive
CITY, STATE, ZIP	Meredith, NH, 03253
LICENSE NUMBER	5903-MHL
EXAMINER IN CHARGE	H. Kurt Gillies
TAX ID NUMBER	

REGULATORY AUTHORITY AND SCOPE OF EXAMINATION:

This regularly scheduled examination was conducted pursuant to New Hampshire RSA 383: 9 and under the provisions of RSA 398-A:1-c. A review of the licensee's current regulated business activities, operational practices and financial condition was undertaken to determine compliance with NH RSA 398-A. The scope of the examination included review of legal documents used to conduct consumer credit business, corporate registration and current lending licenses in other states, consumer complaints filed against the licensee, declined or withdrawn application files, corporate information including a set of audited financial statements for the two fiscal years ended December 31, 2002 and 2003 as well as an un-audited financial statement for the six months ended June 30, 2004, and a Form 1120 U.S. corporate income tax return for 2002. Also reviewed was an employee handbook, a list of lenders with whom the licensee corresponds, local media and website advertising, three completed executive officer questionnaires for the various licensed activities the company may engage in, a list of loan originators employed or retained by the licensee, public privacy policies and custody practices of confidential consumer information obtained by the licensee for lending or brokering purposes. An analysis of a sample of 1 second mortgage loan files originated by the licensee during the 18 month period between March 1, 2003 and August 31, 2004 was also conducted. The examination took place between October 11, 2004 and April 21, 2005.

BACKGROUND:

Financial Resources & Assistance of the Lakes Region, Inc., ("FR&A") is a corporation formed in New Hampshire on May 18, 1989. The company is owned by a sole shareholder, Mr. Scott D. Farah, who also serves as its President. FR&A functions as a first mortgage banker and broker and is also engaged in commercial lines. Commercial lending activities comprise approximately half of the company's revenues while consumer lending and brokering activity make up the other half. Mr. Farah also, operates an insurance business called Insurance Options, co-located with FR&A. The law offices of Michael Gould and Michael Burke, PA are also, co-located with FR&A, apparently operating under a sub-lease agreement. FR&A is currently licensed to conduct residential mortgage activity in 13 states including New Hampshire. The company operates from one location only relative to its New Hampshire business, its licensed principal office in Meredith. FR&A has been licensed as a first and second mortgage banker and broker as well as a small loan lender by the New Hampshire Banking Department ("NHBD") since at least 1997 according to NHBD records. The examination was conducted at the licensee's office located in Meredith, NH.

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OBSERVATIONS:

1. Pursuant to RSA 398-A:1-e, I, licensees are required to file on or before February 1 of each year an annual report concerning business operations for the previous calendar year. FR&A submitted an annual report that stated that the licensee did not originate, broker or fund any second mortgage loans during 200. The annual report was filed with the NHBD on February 27, 2004. Review of loan files and documents during the course of this examination revealed the licensee originated at least one second mortgage loan for borrower [REDACTED], which was closed on October 31, 2003 for \$18,000. FR&A must review its records to verify whether any other such loans were originated, brokered or funded by the licensee during calendar year 2003. Upon verification of the correct number and dollar volume of these second mortgage loans, FR&A must file an amended annual report for calendar year 2003 with the NHBD immediately.
2. Pursuant to RSA 398-A:1-e, III, licensees are required to file a financial statement within 90 days from the date of their fiscal year end. FR&A's fiscal year end is December 31. Financial statements are to include a balance sheet, income statement, statement of changes in owners' equity and a cash flow statement. The licensee filed a financial statement in 2004 within the mandated time period however, not all required documents were submitted. The documents submitted to the NHBD by FR&A appear to be excerpts from an audit conducted by a local external CPA firm. The missing year end complete financial statement was requested from FR&A by the NHBD prior to and again during this examination. Those documents were finally provided on November 8, 2004.
3. Pursuant to RSA 398-A:13, I, and the NH Code of Administrative Rules, Part Ban 2407, licensees are required to notify the NHBD of various significant events within one business day of the occurrence. FR&A answered questions 10 and 11 in the General section of its second mortgage home loan lender officer questionnaire to the effect the licensee is not undergoing investigation by another NH state agency. The licensee's President has further stated FR&A was in the midst of a civil suit whereby the purported issues were somehow preventing the licensee from providing the NHBD a complete set of private corporate financial statements for fiscal year 2003. In the "Notes to Financial Statements" FR&A disclosed that "the State of New Hampshire's Bureau of Securities Regulation issued a Staff Petition for Relief on November 8, 2001 alleging, among other things, that the issuance and sale of certain promissory notes constitute the unregistered sale of securities and that the Company was not licensed under New Hampshire law to engage in such activities..." Review of the licensee's records at the NHBD does not indicate the licensee notified the NHBD of either the investigation or civil suit in accordance with state law.

Examiner (Signature)

H. Kurt Gillies

Assistant Director of Consumer Credit (Signature)

Kimothy Griffin

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The State of New Hampshire Banking Department

**Small Loan Lender
REPORT OF EXAMINATION**

DATE	10/11/2004
NAME OF LICENSEE	Financial Resources & Assistance of the Lakes Region, Inc.
ADDRESS	15 Northview Drive
CITY, STATE, ZIP	Meredith, NH, 03253
LICENSE NUMBER	6082-SM
EXAMINER IN CHARGE	H. Kurt Gillies
TAX ID NUMBER	

REGULATORY AUTHORITY AND SCOPE OF EXAMINATION:

This regularly scheduled examination was conducted pursuant to New Hampshire RSA 383:9 and under the provisions of RSA 399-A:10. A review of the licensee's current regulated business activities, operational practices and financial condition was undertaken to determine compliance with NH RSA 399-A. The scope of the examination included review of legal documents used to conduct consumer credit business, corporate registration and current lending licenses in other states, consumer complaints filed against the licensee, declined or withdrawn application files, corporate information including a set of audited financial statements for the two fiscal years ended December 31, 2002 and 2003 as well as an un-audited financial statement for the six months ended June 30, 2004, and a Form 1120 U.S. corporate income tax return for 2002. Also reviewed was an employee handbook, a list of lenders with whom the licensee corresponds, local media and website advertising, three completed executive officer questionnaires for the various licensed activities the company may engage in, a list of loan originators employed or retained by the licensee, public privacy policies and custody practices of confidential consumer information obtained by the licensee for lending or brokering purposes. The examination took place between October 11, 2004 and April 21, 2005.

BACKGROUND:

Financial Resources & Assistance of the Lakes Region, Inc., ("FR&A") is a corporation formed in New Hampshire on May 18, 1989. The company is owned by a sole shareholder, Mr. Scott D. Farah, who also serves as its President. FR&A functions as a first mortgage banker and broker and is also engaged in commercial lines. Commercial lending activities comprise approximately half of the company's revenues while consumer lending and brokering activity make up the other half. Mr. Farah also, operates an insurance business called Insurance Options, co-located with FR&A. The law offices of Michael Gould and Michael Burke, PA are also, co-located with FR&A, apparently operating under a sub-lease agreement. FR&A is currently licensed to conduct residential mortgage activity in 13 states including New Hampshire. The company operates from one location only relative to its New Hampshire business, its licensed principal office in Meredith. FR&A has been licensed as a first and second mortgage banker and broker as well as a small loan lender by the New Hampshire Banking Department ("NHBD") since at least 1997 according to department records. The examination was conducted at the licensee's office located in Meredith, NH.

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OBSERVATIONS:

1. FR&A reported that the licensee has not closed any small loans during the time period under examination and no consumer applications or small loan files were available for examination and compliance with RSA 399-A could not be determined. That fact notwithstanding, FR&A is currently licensed to engage in small loan activities.

Examiner (Signature)

H. Kurt Gillies

Assistant Director of Consumer Credit (Signature)

Kimothy Griffin