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NEW HAMPSHIRE BANKING DEPARTMENT

Analysis of the Bureau of Securities Regulation's FRM Report, Appendix A

This New Hampshire Banking Department ("NHBD") report is an analysis of the Bureau of Securities Regulation's Appendix A. It is intended to clarify what the Bureau of Securities Regulation ("BSR" or "Securities") set out in its Appendix A. Financial Resources Mortgage, Inc. is referred to in NHBD's response as FRM.

Key:

- 1) The page numbers and paragraphs are references to pages and numbered paragraphs in the BSR Appendix A.
- 2) Plain text is the copied statement from BSR Appendix A.
- 3) *Italicized comments following each plain-text statement are the NHBD's response to the statement.*
- 4) Exhibits are labeled with the page number and paragraph which they explain or support. For instance, "Exhibit A-3-15" would be the exhibit which corresponds to page A-3 of Appendix A, paragraph 15.

Commissioner Peter Hildreth:

Page A-2 paragraph 1: Appendix A entry with a corresponding date of 1/19/05 states: SBD received a complaint from (redacted) on 1/19/05 that was originally addressed to Raymond Burton (1/6/05) of the Office of Executive Council. There was a handwritten memo attached from Mr. Burton to Mr. Hildreth that asked Mr. Hildreth to review the complaint. The complaint regarded a mortgage closing and the terms of the deal unexpectedly having changed. The letter to Mr. Burton read, "I am also being told now that because this was a commercial transaction I have little or no recourse. Commercial transactions offer no consumer protection what so ever in NH and are a buyer beware." The complaint was sent by Mr. (redacted) to Mr. Farah on 2/17/05 and Mr. Farah was asked for an explanation.

This is inaccurate.

- This is the Consumer [REDACTED] NHBD consumer complaint file No. 1330.

- The quote is actually: "I am also being told now that because this was a 'commercial' transaction I have little or no recourse. Commercial transactions offer no consumer protection whatsoever in New Hampshire and are 'buyer beware'."

- NHBD forwarded the complaint to Mr. Farah and forwarded an acknowledgement letter to [REDACTED], the complainant, on 2/28/05.

Page A-2 paragraph 2: Appendix A entry with a corresponding date of 2/28/05 states: Mr. Hildreth sent a letter to Mr. (redacted)... “Mr. Farah has sufficiently addressed your complaint.”

This is inaccurate.

This section states that Mr. Hildreth sent a letter to the consumer stating “Mr. Farah has sufficiently addressed your complaint.” Andrea Shaw, NHBD Staff Attorney, sent a letter to Consumer [REDACTED] on March 17, 2005 stating “It appears that Financial Resources & Assistance of the Lakes Region, Inc. has sufficiently addressed your complaint.”

Page A-2 paragraph 3: Appendix A entry with a corresponding date of 3/8/05 states: Mr. (redacted) emailed Mr. Hildreth stating, “Our conversation gave me a glimmer of hope.” Mr. (redacted) notes that Mr. Farah was accused of bilking a Center Harbor Family out of \$230,000. On 3/17/05 the complaint was closed in a letter from Andrea Shaw of the SBD to Mr. (redacted) stating, “FRM has sufficiently addressed your complaint.”

This is inaccurate.

There is no such email in the file. However, there is a letter faxed March 7, 2005, which was addressed to Commissioner Hildreth that contains the aforementioned language. In addition, Appendix A states that Mr. Farah was accused of bilking a Center Harbor family out of \$230,000. However, the letter states \$232,000 and mentions in parentheses “their life’s savings.” This section also references the complaint letter which contains accurate information and quotes.

Page A-2 paragraph 4: Appendix A entry with a corresponding date of 4/5/05 states: Mr. (redacted) sent a letter to Mr. Hildreth regarding his 2/28 letter; (redacted) disputes that Mr. Farah had sufficiently addressed his complaint and asserts Farah “lied to you” (PCH). Mr. (redacted) itemized discrepancies in Mr. Farah’s response.

This is inaccurate.

This section references a letter, received by NHBD on April 5, 2005, from Mr. [REDACTED] to Mr. Hildreth. The Report specifically states the following: asserts Farah “lied to you” (PCH). While Mr. [REDACTED] implies this in his letter, he does not specifically state the words “lied to you.”

Page A-2 paragraph 5: Appendix A entry with a corresponding date of 10/5/05 states: Mr. Hildreth’s brother’s (redacted) ex-wife redeemed FRM preferred stock.

The information is accurate.

Page A-2 paragraph 6: Appendix A entry with a corresponding date of 10/31/05 states: (redacted), Mr. Hildreth’s brother, signed letter dated Oct 31, 2005 that reads, “I, (redacted), having received full payment of \$12,500, half of the original \$25,000 invested with Financial

Resources, and together with the payment to (redacted), relinquish the 25 shares of preferred stock as collateral that he purchased on March 7, 2000.”

This is inaccurate.

- The quote above is incorrect. Instead of “preferred stock as collateral that he purchased on March 7, 2000”, it should be “preferred stock as collateral on March 7, 2000”.

- The letter doesn't state that he's Peter's brother, but the rest is accurate.

Page A-2 paragraph 7: Appendix A entry with a corresponding date of 4/24/06 states: Interoffice Memorandum to Mr. Hildreth from Andrea Shaw cc: Mary Jurta subject: Financial Resources of the Lake Region-Enforcement. Subject of the message included SBD Actions, Docket No. 05-071 Source anonymous tip and examination (exam on 10/11/2006). Issues: Gramm-Leach-Bliley Act violations; Order to show cause issued 12/20/05. The parties reached a tentative settlement, Respondent is awaiting draft of consent order -- \$15,000 in penalties.

This is inaccurate.

The subject line actually reads “Financial Resources of the Lakes Region-Enforcement Actions.” The date referenced in the Report is 4/24/06. This is not correct as the memo is actually dated 4/27/06. All other information contained within the paragraph is accurate. See also Page A-3 paragraph 3.

Page A-3 paragraph 1: Appendix A entry with a corresponding date of 4/27/06 states: Email from Kim Griffin to Mary Jurta, “PCH (Peter Hildreth) said we should get in touch with Securities to see if we wanted to go with them on exam.” “Left voice message with Barry Glennon.” Mr Glennon has no recollection of such call.”

This is inaccurate.

The 04/27/06 email sent at 10:06am is from Mary Jurta to Kim Griffin with a cc to Andrea Shaw and states “I spoke with PCH today and he said I should get in touch with Securities and let them know we were going back to Financial Resources on a routine exam, and see if they wanted to accompany us. I left a voice mail for Barry Glennon. If they are interested, I will get you the name of the person at Securities to contact to set up a time. – Mary” Kim Griffin responded on 04/27/06 at 10:17am via email to Mary Jurta with a cc to Andrea Shaw stating, “OK, thank you. I am going to have Kerry conduct the exam, within the next 2 weeks.”

Page A-3 paragraph 2: Appendix A entry with a corresponding date of 4/27/06 states: SBD Interoffice Memo to Mr. Hildreth from Andrea Shaw cc: Mary Jurta; regarding nine FRM Complaints.

This is inaccurate.

The interoffice memo states the number of complaints as “8 total (9 originally reported, but a duplicate entry was discovered).”

Page A-3 paragraph 3: Appendix A entry with a corresponding date of 4/27/06 states: SBD Interoffice Memo to Mr. Hildreth from Andrea Shaw cc: Mary Jurta; regarding the 12/20/05 Show Cause issued.

This is inaccurate.

*The text within the interoffice memo actually states that an "Order to Show Cause issued 12/20/05." **Note – this is a duplicate reference, same Interoffice Memo discussed on Page A-2 paragraph 7.*

Page A-3 paragraph 4: Appendix A entry with a corresponding date of 4/27/06 states: SBD fax to Laurie Dorgan from Andrea Shaw Re FRALR that states, "Commissioner requested that I fax you a copy of the Order to Show Cause in the above captioned matter."

This is inaccurate.

The fax cover sheet states "Commissioner Hildreth requested . . ." (emphasis added). Additionally, the RE: line does not state "FRALR" as the Report indicates. The Re: line reads "FINANCIAL RESOURCES & ASSISTANCE OF THE LAKE REGION."

Page A-3 paragraph 5: Appendix A entry with a corresponding date of 5/11/09 states: E-mail from Susan LeDuc of Gallager, Callahan & Gartrell to Rhonda Vappi, of FRM; "Hi Rhonda, I was able to have a conversation with the Deputy Bank Commissioner and the Commissioner on Friday. They are looking at the document that I sent over. If I haven't heard back from them by tomorrow, I'm going to call them. Once that is OK'd, then I can finish up the responses and set a time to meet with Scott (Farah)."

NHBD cannot confirm this statement.

This document was not made available from NHBD files as the NHBD was not a party to this email communication. NHBD records show a document entitled "NH Lending Decision Tree" dated May 19, 2009 which was not an NHBD created record.

Page A-3 paragraph 6: Appendix A entry with a corresponding date of 5/25/06 states: Subpoena sent to Mr. Farah was signed by Mr. Hildreth seeking documents, including tax returns and financial statements. There were no notes extant on whether subpoena was successful in gaining required documents.

This is inaccurate.

NHBD records show this subpoena signed on May 25, 2006 and requested the following in Exhibit A:

- 1. Any and all documents used in preparation of the 2005 tax return filed by Financial Resources and Assistance of the Lakes Region (and/or their accountant)*
- 2. Any and all information used by Financial Resources and Assistance of the Lakes Region (and/or their accountant) to prepare 2005 Financial Statements;*
- 3. All documents contained in a "box" that Mr. Farah and Financial Resources and Assistance of the Lakes Region Inc. refused to provide when requested during the*

examination of the business by the Department on May 24, 2006. The box is described as follows:

- a. The box was returned to Financial Resources and Assistance of the Lakes Region Inc. by Financial Resources and Assistance of the Lakes Region Inc.'s accountant who prepared the 2005 financial statements of the company. Mr. Farah further indicated that the "box" was located in Mr. Farah's office at 15 Northview Drive, Meredith, NH.*

Notes taken by NHBD Department Examiners (as found in the 2006 examination) indicate Rhonda from Financial Resources and Assistance of the Lakes Region, Inc. was handed the subpoena, signed it while she protested she was new to the company and she was giving the documents to the Examiners.

Page A-3 paragraph 7: Appendix A entry with a corresponding date of 6/8/06 states: Correspondence from the Law Office of Gould and Burke to Peter Hildreth, Commissioner of the SBD responding to Subpoena.

This is inaccurate.

The letter dated June 16, 2006 is from Andrea Shaw of NHBD to Michael Burke of Law Office of Gould and Burke. The June 16, 2006 Andrea Shaw letters states "the Department is in receipt of your letter dated June 8, 2006. Please produce all the documents required by the subpoena immediately or the Department will have no choice but to institute an action for violating the subpoena. Failure to have already produced all documents required under the subpoena is further evidence of Mr. Farah's unwillingness to cooperate with the Department. In addition, the Department is withdrawing its offer of settlement concerning the 2004 Gramm Leach Bliley violations. We intend to move forward in an enforcement action for license revocation based on the exam findings over the past two examinations."

There is a June 8, 2006 letter from Law Office of Gould and Burke to Peter Hildreth.

As a side note: Andrea Shaw left the NHBD on October 2, 2006 and Jim Shepard started on September 18, 2006.

Page A-3 paragraph 8: Appendix A entry with a corresponding date of 9/15/09 states: that Email from Peter Roth of the DOJ to Bob Fleury that listed one of FRM's loan opportunities (www.privateloanopportunities.com/██████████). This email states, "Bob. See attached from Peter...Mr. ██████████ lost his appraisal license in NH in February. There's something very not right about this...The owner, (redacted in black), is bankrupt and the lender has leave to foreclose on this property, Peter." Bob Fleury forwarded this email to Mary Jurta on 9/17/09, Mary Jurta proposed to send a letter to Mr. Farah saying he needs to be licensed as a mortgage loan originator – "or we could issue a C&D based on the Website." Ms. Jurta proposes including in the letter that Farah should contact the BSR." Bob Fleury responds on 9/18/09, "Sounds like a plan." Ms. Jurta's letter was sent on 10/13/09.

This is inaccurate.

NHBD records actually indicate that the September 15, 2009 email from Peter Roth to Bob Fleury states "Bob, See attached. from <https://www.privateloanopportunities.com> [REDACTED] lost his appraisal license in NH in February. This house is listed with MLS for \$750,000.

There 's something very not right about this... the owner, [REDACTED] is bankrupt and the lender has leave to foreclose on this property.

Peter

[REDACTED]

The email from Bob Fleury to Mary Jurta dated September 15, 2009 is a forward. Mary Jurta responds to Bob Fleury and Peter Hildreth on September 17, 2009 and states "On further reflection and to get the ball rolling (which is often the most difficult part), I can take a first stab at this by writing Mr. Farah a letter indicating he needs to be licensed as a mortgage loan originator and cannot continue to negotiate mortgages without the license (or we could issue a C&D based on the website info where he is listed as the contract for the investments/mortgage pieces); the letter could include that it appears that he is publicly offering securities in the form of fractional interests in mortgages and should contact the Securities Bureau to see if he needs to obtain authority from them (and the letter can cc the Bureau of Securities Regulation). This would be my first recommendation but since the information was not directed to me from the AG's office, I look to you for authority.. - Mary"

The email from Bob Fleury to Mary Jurta and Peter Hildreth on September 18, 2009 states "Sounds like a plan.

Thanks Mary"

Page A-3 paragraph 9: Appendix A entry with a corresponding date of 9/16/09 states: that Email to Mr. Hildreth and Mr. Fleury from Ms. Jurta which read, "so I would recommend that someone such as the new AG who knows what will be needed to prove criminal fraud should direct the investigation unless you want Celia or Maryam to direct this investigation).....Here are some things we presume to know: The last time we threatened to have an outside firm recreate his books and records at his expense but he managed through Susan LeDuc to get his accountant to adequately explain their financial position line by line, so we could determine a net worth figure."

This is inaccurate.

NHBD records actually indicate the September 16, 2009 email from Mary Jurta to Peter Hildreth and Bob Fleury states: "Hi Bob, We have bits and pieces, but not a complete picture and likely no jurisdiction for most of the subject properties. I recommend that our new AG partner head up an investigation for us and involve the SOS's Securities personnel (I do not know whether the number and amount of securities being issued requires registration, but the anti-fraud provisions of RSA 421-B always apply) and the REAB. Sarah and Kim have a lot

of anecdotal information to offer on the players; they can debrief Katie who can then work with our new AG. Our routine examination processes have proved fruitless for the large part, so I would recommend that someone such as the new AG who knows what will be needed to prove criminal fraud should direct the investigation (unless you want Celia and Maryam to direct the investigation).

Here are some things we presume to know:

- Most of the properties listed on the website appear to be out of state or commercial properties. There are a couple of NH properties and one, the [REDACTED] property, is listed as commercial although it looks like a residence. However, our new definitions (HB 610) change the playing field somewhat. If the property is to be used as a residence (it no longer has to be owner occupied) by an person (sic) and the mortgage loan is primarily for personal, family or household use, we have jurisdiction if the property is located in NH. The [REDACTED] property appears to fit this description and some of the out of state descriptions definitely fit the new definition...so there may be, or may have been, other NH properties that meet it as well.*
- [REDACTED] is an investor/borrower who had several hidden second loans done by Salem Capital Group (not licensed). Dick Samuels came in to NHBD representing Salem and Maryam did a consent order.*
- [REDACTED] is a licensee whom we have examined/investigated. Any questionable loans were all out of state or commercial. We recently forwarded [REDACTED] exam information to HUD on their FHA loan activity and HUD is about to investigate in October.*
- [REDACTED] worked for and was fired from [REDACTED] and was the one who apparently convinced Salem to make the second mortgage loans (for which Salem did not have a license). The [REDACTED] was one of the hidden seconds made in [REDACTED]*
- [REDACTED] was at [REDACTED] and [REDACTED] and was the person who used Paintshop to alter appraisal docs. ([REDACTED] was made aware of [REDACTED] by us). It would seem that Mr. [REDACTED] lost his appraisal license in February he should be subject to civil and criminal penalties of signing the [REDACTED] appraisal in June 2009 so I would invoice the REAB.*
- Scott Farah and Financial Resources Mortgage, Inc. (our licensee) are long known to us and Securities had an open case on him. He is currently soliciting investors and breaking the mortgages into securities (the [REDACTED] transaction has a \$100,000 minimum investment with a 12 month term and a guaranteed 15% annual return). We have poked at these types of transactions when examining Financial Resources Mortgage, Inc. and all were out of state or commercial and not within our jurisdiction. Traditionally, our issue with the company has been horrible recordkeeping. The company is represented by the Gallagher firm and Susan LeDuc has been at the recent exams. Mr. Farah has one person do his books and a CPA does his taxes...and apparently they do not communicate. The last time we threatened to have an outside firm recreate his books and records at his expense but he managed, through Susan LeDuc, to get his accountant to adequately explain their financial position, line by line, so that we could determine a net worth figure.*

- *When I left, Securities had an open case on Scott Farah and Financial Resources for issuing unregistered notes; I do not know the outcome. Scott Farah's Father is a pastor in the area and a lot of his parishioners invested with Scott. There were problems that hit the paper, but apparently Scott made them whole and the issue/case faded.*

What do you think? – Mary”

This is the email that followed from the Bob Fleury email dated September 15, 2009 to Mary Jurta and Kim Griffin, which is the forward of the Peter Roth September 15, 2009 email to Bob Fleury. See A-3 paragraph 8.

Key complaints:

Page A-4 Introduction

A former Financial Resources employee, (redacted) complained of unethical behavior at FRM to the OAG. Other complaints, filed by both borrowers and lenders to FRM, were first reviewed/handled by the OAG Consumer Protection and Antitrust Bureau of the NH Department of Justice. Acknowledgement of the complaint was sent to the Complainant and subsequently forwarded to the SBD.

- *The first sentence above is accurate.*
- *The second sentence above is a broad/general statement.*
- *The third sentence above is accurate.*
- *The above referenced complaint is dated 9/7/04 and was filed with the OAG by a former employee of FRM. The complaint was referred by OAG to NHBD on 10/6/04. Letter to complainant from NHBD dated 10/19/04 stating: "In your complaint you ask that we hold your identify (sic) confidential. The normal complaint process, which is set by statute (RSA 397-A:15-a) requires we send copies of all complaints filed directly to the licensee. Because you request to remain unknown the Department has not treated your information as a complaint. Instead it is being handled as simply providing information to the Department which allows us to not reveal your identity to Financial Resources and Assistance of the Lakes Region. You should be aware that all investigations are confidential and we will not be able to discuss any of the process or findings with you."*

Borrower/Lender Complaint and Litigation (L) History: Total of 23 known complaints/litigation prior to FRM closing down.

This is inaccurate.

There are fifteen (15) NHBD consumer complaints filed against FRM prior to FRM closing down. Litigation filed against FRM would not be tracked in an NHBD database but would be contained in Licensing and/or Examination files. NHBD believes that BSR used a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009.

***Under notes regarding Borrower/Lender Complaint and Litigation (L) History, it appears from NHBD records that some of the dates referenced may have pulled from the NHBD Legal Docket and are not "Litigation" files.*

****2/1/99 NHBD CONSUMER COMPLAINT NOT REFERENCED IN SECURITIES REPORT ([REDACTED])**

1. 06/23/99 – Nancy Gabrielson (L): *This is inaccurate. This is not an NHBD consumer complaint or enforcement action. This name is referenced in a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. The document came from FRM as part of a response to the 2008 examination. This name does not appear in NHBD Legal Docket or Complaint database; however, the date referenced in this matter predates the docket.*
2. 11/14/00 REDACTED (L) *This is inaccurate. This is not an NHBD consumer complaint or enforcement action. This name is referenced in a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. The document came from FRM as part of a response to the 2008 examination. DMP Irrevocable Trust sued FRA, Scott Farah and [REDACTED]. This name does not appear in NHBD Legal Docket or Complaint database; however, the date referenced in this matter predates the docket.*
3. 12/11/01 REDACTED *This appears to be accurate. Appears this might be an NHBD consumer complaint of [REDACTED] complaint # [REDACTED] dated 12/14/01*

****2/5/03 NHBD CONSUMER COMPLAINT NOT REFERENCED IN SECURITIES REPORT ([REDACTED])**

4. 4/14/03 REDACTED *This is accurate. This is an NHBD consumer complaint. Accurate date: [REDACTED]*
5. 9/12/03 REDACTED *This is accurate. This is an NHBD consumer complaint. Accurate date: [REDACTED]*
6. 9/18/03 REDACTED (L) *This is inaccurate. This is not an NHBD consumer complaint. This name is referenced in a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. The document came from FRM as part of a response to the 2008 examination. National Inspection & Recovery sued Scott Farah.*
7. 10/31/03 REDACTED *This is inaccurate. This appears to be an NHBD consumer complaint. Appears this may be [REDACTED] complaint filed on 10/3/03, # [REDACTED], but date used is date response was received*
8. 12/15/03 REDACTED *Letter citing two suspect loans (L) NHBD is unable to confirm this information derived from a letter. The Notice of Hearing for Docket #05-071 states in part: "Issue 4: Whether the Respondents failed to facilitate the examination by not providing requested information in a timely manner, regarding First Franklin's*

December 15, 2003 letter about 2 suspect loans First Franklin purchased from Respondents."

9. 9/7/04 REDACTED *This is inaccurate. There are no NHBD consumer complaints listed in the NHBD database in 2004.*

*** 1/19/05 COMPLAINT NOT REFERENCED IN THIS SECTION OF THE SECURITIES REPORT (REDACTED); This is the only complaint filed with NHBD in 2005. NOTE that this complaint is referenced on page A-2 of Appendix A of Securities Report, paragraph 1 under "Commissioner Peter Hildreth")*

10. 4/6/05 REDACTED *This is inaccurate. There is no record of this complaint in the NHBD database. (Unclear whether this is the REDACTED complaint since the consumer faxed a letter to NHBD on 4/4/05 – sent hardcopy on 4/5/05- but dates still do not match.)*

11. 3/1/05 REDACTED (L) *This is inaccurate. This is not an NHBD consumer complaint or enforcement action. Ronald Stone and Howard Stone sued Scott Farah, FRA, Robert Farah and Center Harbor Christian Church. This name is referenced in a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. The document came from FRM as part of a response to the 2008 examination.*

12. 2/3/06 REDACTED (L) *This is inaccurate. This is not a litigation file but rather a consumer complaint by Realtor REDACTED; Complaint response came from Attorney Michael Burke o/b/o Financial Resources Mortgage stating that this is not technically a consumer complaint because the complainant is a Realtor and not a party to the mortgage.*

13. 3/17/06 REDACTED (L) *This is inaccurate. This appears to be the REDACTED NHBD consumer complaint dated 3/8/06 to the AG's Office, referred to NHBD on March 27, 2006, and received by NHBD March 29, 2006. This complaint is dated 2/22/06 in the NHBD database. Resulted in litigation in RCSC on June 13, 2006.*

**NOTE: There are only two 2006 complaints on record with NHBD.*

14. 6/21/06 REDACTED (L) *This is inaccurate. This appears to be the Michael Franklin litigation. This name is referenced in a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. The document came from FRM as part of a response to the 2008 examination. In the chart, the date is 6/13/06. Michael Franklin sued Scott Farah and FRA.*

15. 4/4/07 REDACTED *This is accurate. Accurate date: REDACTED; NOTE This is the only 2007 NHBD consumer complaint.*

16. 7/?/07 REDACTED Appendix A discusses two 7/07 complaints: borrowers did not receive money disbursements as promised in closing contracts.

NHBD files reflect lawsuits (not complaints) filed by Nicholas Auger and Jacqueline Auger and Paul Young and Rose Young. Auger suit filed May 2007 and Young suit filed June 2007. The Auger loan was actually an investment property (non occupant loan) and therefore not within the NHBD's jurisdiction (See law office of Gould and Burke December 18, 2007 letter to Jim Shepard.) The Young loan does appear to be a residential second loan.

17. 7/?/07 REDACTED Appendix A discusses two 7/07 complaints: borrowers did not receive money disbursements as promised in closing contracts.

NHBD files reflect lawsuits (not complaints) filed by Nicholas Auger and Jacqueline Auger and Paul Young and Rose Young. Auger suit filed May 2007 and Young suit filed June 2007. The Auger loan was actually an investment property (non occupant loan) and therefore not within the NHBD's jurisdiction (See law office of Gould and Burke December 18, 2007 letter to Jim Shepard.) The Young loan does appear to be a residential second loan.

****2/25/08 COMPLAINT NOT REFERENCED IN SECURITIES REPORT (REDACTED)**
REDACTED; NOTE: This complaint was referred to Securities 3/11/03)

18. 5/20/08 REDACTED This is accurate. Accurate date: REDACTED

19. 5/20/08 REDACTED This is accurate. Accurate date: REDACTED

20. 7/9/08 REDACTED This is Accurate date: REDACTED

21. 2/17/09 REDACTED NHBD was unable to locate a complaint of this date in its files. This may be a reference to the NHBD Interoffice email exchanges regarding the REDACTED investigation is dated 2/17/09.

22. 2/25/09 REDACTED NHBD was unable to locate a complaint of this date in its files. This may be a reference to the REDACTED investigation.

23. 8/24/09 REDACTED NHBD was unable to locate a complaint of this date in its files. This may be a reference to the NHBD Legal Docket #09-080. 8/24/09 shows as date of Examiner memo and date of entry on docket [See docket record].

****11/12/09 COMPLAINT NOT REFERENCED IN SECURITIES REPORT (REDACTED)**
REDACTED; This is the only 2009 Complaint on record with NHBD)

List of Documents Reviewed Relating to aforementioned complaints

Page A-4 paragraph 1: Appendix A states: SBD spreadsheet of litigation from 1/1/00 to 2/25/09 displays 12 complaints.

This is inaccurate. The items in the spreadsheet are not all NHBD consumer complaint. The Department has a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. This document displays 9 litigation cases and 3 consumer complaints.

Page A-4 paragraph 2: Appendix A states: There were two litigation files that specifically mentioned fraud, (redacted). On March 1, 2005, Mr. (redacted)'s litigation accused Mr. Farah of conspiracy to defraud. Mr. Farah put Mr. (redacted)'s father's money in NIR notes at 13% and when Mr. (redacted) sought his money, Mr. Farah couldn't get the money right away and needed time to get liquid. Documents within the (redacted) Complaint file included copies of letters from FRM reporting principal balances in (redacted) account FBO (redacted) for [REDACTED] -- \$75,000 and [REDACTED] -- \$50,000. Mr. (redacted)'s complaint was apparently received by the OAG and forwarded to SBD. Mr. (redacted)'s file contained an 8/11/08 litigation which included fraud pending. Mr. (redacted)'s litigation was filed in Rockingham County Superior Court regarding a commercial loan, breach of contract, interference with contract, interference with contract and negligence.

This is inaccurate.

-NHBD does not represent the complainants nor is NHBD a party to the litigation; therefore NHBD would not have "litigation files".

-The name is not [REDACTED]; it is [REDACTED].

-NHBD records indicate the Department has a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. DMP Irrevocable Trust and Michael Dube mention fraud. Ronald Stone accused Farah of conspiracy to defraud.

Page A-5 paragraph 1: Appendix A states: Complaints: 7/07, (redacted) borrower; 7/07, (redacted) – borrower; 8/08, (redacted) – borrower; 6/13/06, (redacted) – borrower. All complaints center on not receiving money/disbursements as promised in closing contracts.

This is inaccurate.

- NHBD files reflect lawsuits (not complaints) filed by Nicholas Auger and Jacqueline Auger and Paul Young and Rose Young. Auger suit filed May 2007 and Young suit filed June 2007. The Auger loan was actually an investment property (non occupant loan) and therefore not within the NHBD's jurisdiction (See law office of Gould and Burke December 18, 2007 letter to Jim Shepard.)

- The Young loan does appear to be a residential second loan. NHBD files reflect lawsuits (not complaints) filed by Nicholas Auger and Jacqueline Auger and Paul Young and Rose Young. Auger suit filed May 2007 and Young suit filed June 2007. The Auger loan was actually an investment property (non occupant

loan) and therefore not within the NHBD's jurisdiction (See law office of Gould and Burke December 18, 2007 letter to Jim Shepard. The Young loan does appear to be a residential second loan.

- *The 8/08 item is a litigation date of 8/11/08 from the document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." for the time period January 1, 2000 to February 25, 2009 and is the Michael Dube litigation. The Michael Dube item discusses under "Subject Matter of Litigation" commercial loan, TRO foreclosure, breach of contract, interference w/ contract, conspiracy, breach of fiduciary duty, fraud, negligence. The disposition states it is pending.*
- *The 6/13/06 is a litigation date from the document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." for the time period January 1, 2000 to February 25, 2009 and is the Michael Franklin matter. The Michael Franklin item discusses under "Subject Matter of Litigation" misrepresentation and breach of contract. The disposition states the matter was "Settled; Docket markings judgment neither party, no further action for same cause". Again, the Michael Franklin loan was a construction loan.*

Page A-5 paragraph 2: SBD 2001 Examination Questionnaire; notes by SBD Examiner: "Licensee had 2 suits pending regarding commercial loans. Does not service loans. Major portion of loans are subprime. Records and files not adequate to permit exams. Closing charges are unreasonable. Failed to disclose yield to spread premiums. FRM wants exams arranged in advance."

This is inaccurate.

NHBD records show the Questionnaire to be answered by the examiner shows this is actually a 14 page document. One question is "Loans serviced from this location on examination date." The answer was "No...Licensee states that no first mortgage residential loans are serviced in New Hampshire." Next question that is relevant herein is "Are there any suits pending against the licensee with regard to its New Hampshire lending activity?" The answer was "Yes. Licensee states that 2 suits regarding commercial lending are pending and 1 situation regarding residential lending that may become a suit."

In the introductory page, after the question "Describe briefly the general plan of operation", the answer is "Licensee is a locally owned first and second mortgage brokerage business. The company also is licensed as a first mortgage banker and has a small loan license. Licensee states that it has several out-of-state locations that are licensed in the corresponding states. The major portion of the loans brokered is sub-prime."

Regarding records, there were two questions related to the report above. First question is "Were adequate loan payment records available at this office?" The answer was "N/A. Licensee does not service the loans." Second question was "If not, how can we obtain such records?" This answer was "N/A. Licensee does not service the loans."

Regarding closing charges as related to the report above, one question was "Are charges computed on the unpaid loan balance?" The answer was "N/A. Licensee does not service loans." Next question was "Did your calculation of charges disclose any overcharges?" Answer was "Yes. License (sic) up-charges for credit reports." Next question is "List case giving account number, name of borrower, rate of periods covering these overcharges and amount of overcharge:" The answer is "All loans reviewed contain this overcharge. Licensee states that this is the pattern and practice of the company. Average cost of a credit report is \$12.50, an overcharge of \$62.50 per loan." Next question is "Is the borrower required to pay closing fee for examination of title, recording fee, appraisal fee and legal fee?" Answer is "Yes.". Next question is "If so, are those fees reasonable, in your opinion?" Answer states "No. The closing agent for 16 of the loans reviewed (73%) collected approximately \$700 attorney's fees, \$65 for copy fees, \$170 for 'title insurance commission', \$40 for overnight courier, and \$75 for fax, phone or wire for each loan closed. Recording fees and appraisal fees appeared to be reasonable."

Regarding the examination as related to the report above, a question under Miscellaneous was "If special arrangements need to be made for a regular examination, list instruction below:" The response was "Examinations should be arranged in advanced (sic) via first day entry letter directed to Mr. Scott Farah, President."

Regarding the yield spread premium as related to the report above, a question under Violations was "Detail any violations of law, rules or standard business practice:" The response was "1. The licensee does not properly disclose the yield-spread premium on the Good Faith Estimate in violation of RESPA, Appendix A. It is the position of the Banking Department that this premium is a mortgage broker fee and must be disclosed in the '800' section of the Good Faith Estimate and correspondingly on the HUD 1. Although the lender funds the yield-spread premium at closing, it is a fee paid by the borrower over the life of the loan. The fee is 'built' into the contract rate of the loan resulting in a higher rate to the borrower. This fee is considered a cost to the borrower to obtain credit and must be disclosed per the guidelines of RESPA. This fee must be disclosed in the '800' section pursuant to RESPA, Pt. 3500, Appendix A which states in part 'Lines 808-811 are used to list additional items payable in connection with the loan including a CLO Access fee, a mortgage broker fee'. (Emphasis added)."

Page A-5 paragraph 3: Appendix A states: Complaint filed 9/7/04 with NH OAG Consumer Protection Agency by (redacted) (former FRM employee) file #200428363. 10/6/04 OAG Consumer Protection sent letter without signature to Ms. (redacted) acknowledging complaint and indicating complaint was forwarded to SBD. Highlights of the complaint against FRM include the following items: mining closed files for refinancing, reusing clients' equity, pulling clients' credit without permission, marketing to people in bankruptcy for refinancing, throwing private client information in the dumpster, passing FRM off as a lender rather than a broker, and charging exorbitant loan and closing costs. The complaint reads, "They are currently marketing to people in bankruptcy to refinance and charging 5 upfront points to find them a loan. They throw away consumer paper work with private information including social security numbers

and credit history information into a dumpster in back of the building. I am a prior employee and have seen these practices and more unethical practices happen on a daily basis without concern for those they are hurting.”

This is inaccurate.

The NHBD letter from Andrea Shaw to the complainant ([REDACTED]) dated October 19, 2004 states in part: “Because you request to remain unknown the Department has not treated your information as a complaint. Instead it is being handled as simply providing information to the Department which allows us to not reveal your identity to Financial Resources and Assistance of the Lakes Region. You should be aware that all investigations are confidential and we will not be able to discuss any of the process or findings with you.”

Page A-5 paragraph 4: Appendix A states: Internal SBD referral for an expanded exam on 12/18/08 for excessive customer complaints.

This is inaccurate.

The NHBD document for this item states “Referral for Expanded Exam” and has checked off other items including 1) Significant concerns from previous examination, 2) Licensee currently under investigation, 3) Examination materials not received within 21 days, 4) Inaccurate supporting documentation for Annual Report and 5) Excessive consumer complaints.

Page A-5 paragraph 5: Appendix A states: customer complaint letter, 5/20/08 cc: Richard Tracy of Department of Justice Office received by SBD. Not responded to until 12/28/09. SBD determined they had no jurisdiction because it was a construction loan. Construction was a modular home.

This is inaccurate.

The NHBD document actually is a letter from NHBD (signed by Maryam Torben Desfosses) to [REDACTED] and [REDACTED] stating “The New Hampshire Banking Department is in receipt of your consumer complaint against the above named company. Per our telephone conversation, the Department has determined that it has no jurisdiction over this matter because the loan is a construction loan. Therefore, the Department has no jurisdiction to provide the remedy you seek in your consumer complaint. The complaint is being referred to Mr. Tracy at the New Hampshire Attorney General’s office. Thank you for bringing this matter to our attention.”

Page A-5 paragraph 6: Appendix A states: Letter from Richard Head, 3/27/06 of the OAG Bureau Chief-Consumer Protection & Antitrust to (redacted), complainant, which acknowledges he had received and reviewed Mr. (redacted)’s recent complaint of FRM – and given the nature of the complaint, has forwarded to SBD – acknowledging complaints belonging to SBD.

This is inaccurate.

NHBD records show there is a March 27, 2006 letter from Richard Head to [REDACTED] (the complainant). The letter states "Given the nature of your concerns, your complaint is being referred to the Banking Commission. If they are able to assist you, they will contact you directly." This letter does not acknowledge complaints belong to SBD (NHBD).

The [REDACTED] loan had to do with a construction loan, which is not part of NHBD's jurisdiction.

Page A-5 paragraph 7: Appendix A states: a Writ of Summons to Superior Court, 6/13/06: (Redacted) vs. Scott Farah. 7/13/06, According to the SBD file, FRM being sued by (Redacted).

This is inaccurate.

The letter NHBD has is from the Law Office of Gould and Burke dated July 13, 2006 to Andrea Shaw stating "As you know [REDACTED] previously filed a complaint with the New Hampshire Banking Department against Financial Resources and Assistance of the Lakes Region, Inc. [REDACTED] Writ of Summons attached to the July 13, 2006 Gould and Burke letter reveal this was not a loan within NHBD's jurisdiction. The Writ of Summons states "The Plaintiff(s) state(s): I started construction of my home relying on representations made by financial resources employees as to the terms of my financing and the closing documents did not reflect what was promised to me. My efforts to resolve this matter have been unsuccessful – essentially, I have been advised to 'take it or leave it' and now I owe thousands of dollars to contractors whom I hired in reliance upon the broker's misrepresentations."

Page A-6 paragraph 1: Appendix A states: Complaint from (redacted) to SBD regarding an 11-28-05 loan agreement between (redacted) and (redacted). The servicer on the loan was CL&M, an unlicensed mortgage loan servicer.

This record is accurate.

This is the document from Financial Resources and Assistance of the Lakes Region, Inc. dated 11-28-05. It is "Re: Loan Arrangement between [REDACTED], as Lender, and [REDACTED], as Borrower".

It does mention sending all payments under this Note to C,L and M, Inc.

Page A-6 paragraph 2: Appendix A states: Complaint from (redacted) to the SBD on 8/24/09 referred to Mr. Farah – Case #16032726 regarding (redacted), FRM employee, which states, "he is the most dishonest banker I have ever dealt with." Letter dated 8/12/09 from law firm Merritt Flebotte, Wilson, Webb, and Caruso, PLLC (MFWWC) to Farah regarding the (redacted) complaint. The complaint was a delay in the loan.

This is inaccurate.

- This is a complaint from [REDACTED] to the Better Business Bureau, not NHBD. Response by the Better Business Bureau sent to [REDACTED] on August 25, 2009 with Case # [REDACTED].

- The August 12, 2009 letter is from [REDACTED] to FRM Attn: Scott Farah and states in part "As for your employee Dan Casale, he is the most dishonest banker I have ever dealt with. In brief, I have been a successful real estate investor for 19yrs and part time mortgage banker for 10yrs..."

- The letter from Merritt, Flebotte, Wilson, Webb & Caruso, PLLC is actually dated October 6, 2009 and is addressed to Financial Resources Mortgage, Inc. Attn: Scott Farah.

- The subject of the October 6, 2009 letter is

"Re: [REDACTED]
Financing [REDACTED] Project
Our File No.: [REDACTED]"

- Part of the October 6, 2009 letter from the law firm to Financial Resources Mortgage, Inc. states "This law firm has been contacted by [REDACTED] concerning the course (language cut off partially) dealing he has experienced in attempting to secure financing from Financial Resource (partly cut off) Mortgage, Inc. ("FRM") for a building project in [REDACTED]."

Page A-6 paragraph 3: Appendix A states: complaint filed by (redacted) (docket #06-149), 3/17/06 – alleging misrepresentations and fraud. Notes within complaint file include a 3/17/06 letter from Andrea Shaw of SBD from real estate office alleging misrepresentation,

This is inaccurate.

NHBD records show that a letter dated March 17, 2006 was from Michael Burke of the Law Office of Gould and Burke to Andrea Shaw of NHBD. It is Gould and Burke's response to the consumer complaint of [REDACTED]. It gives a chronological order of events.

Andrea Shaw's letter is dated March 22, 2006 to Michael Burke of Law Office of Gould and Burke dealing with [REDACTED]'s complaint and states "Thank you for your letter dated March 17, 2006. RSA 397-A:15-a requires documentation that supports your position be provided as part of the complaint response. Please provide the documentation mentioned in the last paragraph of your letter. The documentation is due to the office on or before May 2, 2006 to avoid late fines. Please feel free to contact me if you have any questions."

Please refer back to Page A-5 paragraph 7.

Page A-6 paragraph 4: Appendix A states: Loan to (redacted) from (redacted) – borrower (redacted) said (as reported by Diane Smith, FRM employee) on 10/15/09 that she had contacted the SBD and the OAG. File includes letter from Governor's Office of Citizen Services, 5/16/08; letter of 9/22/08 to OAG regarding FRM's misrepresentations; letter from OAG's office of 1/13/09 regarding FRM stating they did not have jurisdiction; no further action or letters from SBD.

NHBD cannot confirm the Appendix A statement herein.

SBD [REDACTED] Investigation File

Page A-6 paragraph 5: Appendix A entry with a corresponding date of 2/10/09 states: Email from Scott Farah to [REDACTED] that lists private residential and commercial loan opportunities with the website ([https://www.privatelooanopportunities.com/?key=\[REDACTED\]](https://www.privatelooanopportunities.com/?key=[REDACTED])) at which they are available.

This is inaccurate.

NHBD records show this email states "Hello! Here is the latest ALERT you requested allowing you first glance of our updated Private Lender Website. This gives you access to our private loan opportunitites (sic). I appreciate your interest.

Please click on (or copy and paste to your browser) the link found below my name and phone number herein to have the first opportunity to see our private website and our latest private loan opportunity scenarios.

Please call me at 800-950-6913 if you would like to view any of the packages, I will give you the access password.

Thank you for your interest! I look forward to hearing from you soon.

Have a great day!"

Page A-6 paragraph 6: Appendix A entry with a corresponding date of 2/11/09 states: Mr. [REDACTED] forwards the 2/10/2009 email from Mr. Farah to the SBD. Mr. [REDACTED] specifically addresses his concern regarding private loan opportunities in his email to SBD. Mr. [REDACTED] was receiving interest payments form CL&M, which was part of the alleged Ponzi scheme.

This is inaccurate.

This email actually states: "Hi Michele, Below is Scott Farah's most recent monthly email with the current offerings. If you cannot connect directly through the [https://www.privatelooanopportunities.com/?key=\[REDACTED\]](https://www.privatelooanopportunities.com/?key=[REDACTED]) link, then try typing in my [REDACTED] address and the [REDACTED] keycode. I am also attaching a pdf of the linked page in case you are unable to open it.

At the end of the file you will see deals that are `off the table`. Those are deals from previous offerings that have supposedly been taken by other investors and are no longer available. You'll notice the [REDACTED] deal, which is the one I am involved with. Notice that it is not `off the table`. This deal has been showing the same `24 lots off the table and 12 lots available at \$116K' since I invested in Oct '07. (I was mistaken on the phone when I said 24 lots total...I guess it is 36 lots total). Scott has been telling me for a couple of months that this deal is committed to a big investor who is taking the whole thing and they are just waiting for the closing, why does it keep showing 12 lots available and why isn't it listed as off table? I'm supposedly waiting for this deal to close with that big investor to get my \$116K back.

Whenever I've emailed to Scott to question things like this, if he answers at all, he does so by phone...which has also been troublesome for me. And on the phone he is extremely reassuring."

This was followed by an email dated February 11, 2009 from [REDACTED] to Michele Kelleher stating "I had an extra `l' in your first name."

This was followed by an email dated February 15, 2009 from [REDACTED] to Michele Kelleher stated "Hi Michele, Just wanted to let you know that I went down and was given a check from CL&M on Friday afternoon...I am keeping my fingers crossed that it clears, then I will be all set. Thanks for your interest, [REDACTED]".

Page A-6 paragraph 7: Appendix A entry with a corresponding date of 2/17/09 states: A 4:02pm email from at SBD from Michele Kelleher to Ms. Jurta, Maryam Jorben-Des Fosses, and others stating, "FYI I received a confirmation email from [REDACTED], the Financial Resources/CL&M investor of the [REDACTED] lot property, that he did receive a check on Friday as promised by Mr. Farah. He is crossing his fingers that the check will clear. I will follow up with them in few days to confirm". This was contained within the SBD [REDACTED] Investigation File.

This is inaccurate.

While the NHBD email is accurate herein, it is Maryam Torben-Desfosses, not Maryam Jorben-Des Fosses.

Page A-7 paragraph 1: Appendix A entry with a corresponding date of 2/17/09 states: A 4:03 pm email from at SBD from Kim Griffin to Michele Kelleher, Mary Jurta, Maryam Torben-Des Fosses, and others stating, "I have moved the exam to begin next Monday 2/23. Lorie was out sick today and I didn't think they could do the exam unannounced in three days."

This is inaccurate.

While the NHBD email is accurate, the name is Lorry, not Lorie.

Page A-7 paragraph 2: Appendix A entry with a corresponding date of 2/23/09 states: SBD conducts an unannounced examination at FRM that Susan LeDuc of the Gallagher Law Firm facilitates. There is little documentation on this one-day exam. Private investor options are mentioned by an SBD examiner within the exam notes.

This is inaccurate.

The exam began November 17, 2008 and concluded March 16, 2009. Two examiners were on-site for three days, beginning February 23, 2009 through February 25, 2009. One examiner was there for a fourth day. Extensive notes were taken with time stamps.

Page A-7 paragraph 3: Appendix A entry with a corresponding date of 12/28/09 states: [REDACTED] emails Mr. Hildreth, asking him why his staff told him there was only one complaint against FRM when there were 17 and what law Mr. Hildreth is referring to as to why Mr. [REDACTED] was told there was only one complaint. Mr. [REDACTED] documents that he had telephone conversations with Mr. Hildreth.

This is inaccurate.

The email does not discuss whether there was 1 or 17 complaints against FRM.

Page A-7 paragraph 4: Appendix A entry with a corresponding date of 1/5/10 states: Mr. [REDACTED] emails Maryam Torben-Desfosses of the SBD and cc's Mr. Hildreth and asks why Mr. Hildreth has yet to get back to him and answer his questions. Mr. Hildreth emails Mr. [REDACTED] a half hour later and refers to RSA 383:10-e (see also RSA 383:10-b).

This is accurate.

Page A-7 paragraph 5: Appendix A entry with a corresponding date of 2/6/10 states: Mr. [REDACTED] emails Securities Director Mark Connolly, stating he had previous telephone conversations with Mr. Hildreth. According to Mr. [REDACTED], the conversations include Mr. Hildreth explaining why only one complaint was disclosed to Mr. [REDACTED]. Mr. Hildreth stated that 12 of the 15 complaints were securities matters not under SBD jurisdiction, that FRM was operating under so many different aliases, (i.e., Financial Resources National, CL & M, Financial Resources Mortgage, Financial Resources and Assistance of the Lakes Region) and that an answer depends on what Mr. [REDACTED] specifically asked for. Mr. [REDACTED] explains to Mr. Hildreth that the SBD Audit Reports explain that his department was aware of the aliases. Refers to e-mail in Report. A check of BSR records shows no complaints forwarded to the BSR by SBD. Furthermore, on 2/18/09 Mr. Hildreth stated there was no evidence of securities at the SBD.

NHBD is unable to verify this statement. This document was not made available from NHBD files as the NHBD was not a party to this email communication and does not have a copy of this email.

Page A-7 paragraph 6: Appendix A entry with a corresponding date of 3/16/10 states: Mr. Masuck of the BSR asked Mr. Fleury of the SBD during the on-site review at SBD if there were any other documents gathered by the SBD regarding FRM. Mr. Fleury stated he didn't know but if there was it would be in the pile in front of him

This information was not made available from NHBD files. It appears to be information collected from notes or recollections of Mr. Masuck directly. In response, Mr. Fleury states the following, "Mr. Masuck did not ask such a broad question. He asked a specific question regarding a complaint and an examination to which the answer [I gave] was correct."

FRM Financials and Bank Statements

Page A-8 paragraph 1: Appendix A states: FRM had a servicing banking account. Checks were made out to individuals with a memo which was an invoice number.

This is inaccurate.

FRM did have a servicing account with Citizens Bank. However, only some checks were made out to individuals with a memo which was an invoice number.

Page A-8 paragraph 2: Appendix A states: FRM's bookkeeper was FL Bookkeeping, PO Box 266, Broken Arrow, OK 74012 (918-251-5671). FRM had a bookkeeper yet financial weren't readily available during SBD audits many times.

This is inaccurate.

A document entitled "Organizational Chart" was located in the 2008 examination work papers for Financial Resources Mortgage, Inc. The Organizational Chart mentions Broken Arrow, OK. However, there is no reference to bookkeeper name or address. Further, Bill Connors has been Financial Resources Mortgage, Inc. accountant since at least 1999 as indicated in the notes from NHBD Examiner Joseph Rouleau. Further, the Examination: Comments page by Examiner Lorry Cloutier states Bill Connor does the audited financials.

Page A-8 paragraph 3: Appendix A states: Cash in bank statements submitted on dates chosen by FRM, not per SBD requests.

This is inaccurate.

NHBD record (taken from the June 2007 report of exam) states under #42 "Bank statement reconciliations were not available for the months of January, February, and March 2007. The General Ledger and bank statements are reconciled every 6 months. Reconciliations should be performed at minimum, quarterly, in order to determine errors and any discrepancies in a timely manner."

Page A-8 paragraph 4: Appendix A states: 2000/1999 Balance Sheet not notarized.

This is inaccurate.

This balance sheet was part of an audited set attested to by Connor & Associates, P.C. on March 19, 2001.

Page A-8 paragraph 5: Appendix A states: 2001 FRM balance sheet returned for Notary seal; Notarized Balance Sheets not found.

This is inaccurate.

NHBD records show the original with a notary seal. There is a note on the document that indicates Securities saw a notarized document.

Page A-8 paragraph 6: Appendix A states: March 2004 Letter from SBD requesting March 2002 financials from FRM. \$25/day penalty for late filing; no record of penalty being assessed for being over a year late.

This is inaccurate.

The NHBD letter is actually dated May 24, 2004 and requested financials but no year was given. Further, the letter specifically states in part "To date, we have received a balance sheet and an income statement. As a courtesy to you, we recorded the financial statement as 'filed', even though they were incomplete, to avoid the \$25 per day per applicable statutory penalty (RSA 397-A, 398-A and 399-A)."

Page A-8 paragraph 7: Appendix A states: 2003 Financial Statements not notarized.

This is inaccurate.

There is no requirement that the licensee notarize these financials for examination. See also Page A-10 paragraph 11.

Page A-8 paragraph 8: Appendix A states: 10/26/04 Draft of "Order to Show Cause". Order based upon non-receipt of financial statements. This order did not get a docket #, and was never made official or issued to FRM.

This is inaccurate.

The Order to Show Cause Draft does have a docket number, it is docket #04-044. Further, the date is incorrect; it is actually September 2004, not October 2004. The Staff Petition mentioned within the Order to Show Cause states it is dated September 28, 2004.

Page A-8 paragraph 9: Appendix A states: 2005 Account Reconciliations display negative amounts and were not reconciled.

This is inaccurate.

These account reconciliations were taken from the May 15, 2006 exam papers. The 2005 account registers display negative amounts because they are debits to the account (not a negative balance). There do not appear to be bank statements for this period to reconcile.

Page A-8 paragraph 10: Appendix A states: 1/20/06 Andrea Shaw suggests (e-mail) that she is taking enforcement action on FRM for 2004 filing delinquencies. No record of action taken.

This is inaccurate.

This is merely a draft and does not appear to be signed copies.

Page A-8 paragraph 11: Appendix A states: 5/25/06: Subpoena issued to Scott Farah to produce financial documents; signed by Peter Hildreth.

This is accurate but see Page A-3-6 notes above and documents.

Page A-8 paragraph 12: Appendix A states: 8/30/06 Letter to Scott Farah; same issue of missing financials. No record of any further action(s).

This is inaccurate.

NHBD records indicate there is an August 30, 2006 letter to Scott Farah. The letter does discuss missing financials. However, entries in the document entitled "NOTES FROM CCD DATABASE (OFFICERS SCREEN)" state the following:

8/30/06 RLS wrote again because there was no answer to the 4/26 letter and file had been re-pended twice before for a response. Advised of enforcement action if audited financials were not received within 30 days. Cc

9/28/96 – audited financials FINALLY received. Cc

Page A-8 paragraph 13: Appendix A states: SBD CONFIDENTIAL FILE: audited financials finally received September 28, 2006 for '04. April 16, 2001 received December 31, 2000 audited statements...zero cash minus accounts payable resulted in zero liquidity. SBD requested "Bankers Bond" be increased be \$100,000.

This is accurate.

Page A-8 paragraph 14: Appendix A states: According to the 9/30/06 Financial Statements and Account Report by Connors and Associates, \$15,000 worth of common stock is listed on the balance sheet, cash totaled \$117,462, retained earnings were - \$432,770, and net income was \$206,023. The financial statements were not reviewed or audited and disclosure required by GAAP was omitted by Connors and Associates.

*NHBD cannot confirm this statement.
No NHBD documentation was found.*

Page A-9 paragraph 1: Appendix A states: 4/26/2007 Letter from SBD to Rich Pollack (FRM) and date stamped received by Mr. Pollack 9/28/07, Letter stated that FRM Financials were incomplete. Pended by SBD until 5/12/07. No record of what happened/consequences, etc.

*This is inaccurate.
According to NHBD records the 4/26/07 letter should be dated 4/26/06 according to the attached NOTES FROM CCD DATABASE (OFFICERS SCREEN). Letter is to Rich Rollock not Rich Pollack. The "Rec'd 9-28" is not a date rec'd by Rollock, it was the date the Licensing Division wrote down of when the info was rec'd.*

Page A-9 paragraph 2: Appendix A states: Auditors Report of Financial Statements for 2005 and 2006 was submitted over a year late by FRM to SBD on 3/30/07. Financial Statements are supposed to be filed 90 days from the date of FRM's fiscal year end which is 12/31.

*This is inaccurate.
NHBD records show a document entitled "Financial Statements December 31, 2006 and 2005 and Independent Auditors' Report" for Financial Resources & Assistance of the Lakes Region, Inc. shows the financial statements were not submitted late. This is a comparative statement submitted for year end 2006...due 3/31...Provided 3/30/07.*

FRM Ledger within the SBD Audit File with no or little SBD documented review

Page A-9 paragraph 3: Appendix A states:

Date	Amount	Payable to	BSR Questions/Comment
11/25/2008	2,666.66	Pensco Trust	SBD Regulates Pensco Trust*

(That * is a footnote which states at the bottom of the page "It is difficult to determine the relationship of Pensco Trust with FRM").

This is accurate.

The amount is correct in Appendix A.

Page A-9 paragraph 4: Appendix A states:

Date	Amount	Payable to	BSR Questions/Comment
10/14/2008	62.50	AR Securities Dept	What was this for? Licensing?

This is accurate.

The amount is correct in Appendix A.

Page A-9 paragraph 5: Appendix A states:

Date	Amount	Payable to	BSR Questions/Comment
10/3/2008	1,500.00	Money Tree Software [REDACTED]	Typically used for Financial Planning Software Who was using this and what for?

This is accurate.

The amount is correct in Appendix A.

Page A-9 paragraph 6: Report states:

Date	Amount	Payable to	BSR Questions/Comment
12/25/2010	2,666.66	Pensco Trust	

This is inaccurate.

The amount is correct. The date is wrong; it should be 12/25/2008.

Page A-9 paragraph 7: Report states:

Date	Amount	Payable to	BSR Questions/Comment
12/19/2008	20,000.00	ML Asset Management Chad Portfolio	What was this for?

This is accurate.

The amount is correct.

Page A-9 paragraph 8:

Date	Amount	Payable to	BSR Questions/Comment
12/5/2008	1,635.00	American Financial [REDACTED]	What was this for?

*This is accurate.
The amount is correct.*

Page A-10 paragraph 1: Appendix A states:

Date	Amount	Payable to	BSR Questions
10/2/2008	14,365	CL&M	What was this for?

*This is inaccurate.
The amount is correct but the date is actually 10/3/2008.*

Page A-10 paragraph 2: Appendix A states:

Date	Amount	Payable to	BSR Questions
10/7/2008	500.00	Korkosz Appraisals	Licensed revoked in ME in 2007

*This is inaccurate.
The amount is correct, the date is correct but it is payable to Korkosz Appraisal Service.*

Page A-10 paragraph 3: Appendix A states:

Date	Amount	Payable to	BSR Questions
10/3/2008	1,500.00	Money Tree Software	Typically used for Financial Planning Software Who was using this and what for?

*This is inaccurate.
The amount is correct, but the date is actually 10/9/2008 and it is payable to Money Tree (not Money Tree Software).*

Page A-10 paragraph 4: Appendix A states:

Date	Amount	Payable to	BSR Questions
11/4/2008	8,000.00	ML Asset Management	What was this for?

*This is inaccurate.
The amount is correct and the date is correct but it is payable to ML Asset Management, Inc.*

Page A-10 paragraph 5: Appendix A states:

Date	Amount	Payable to	BSR Questions
12/10/2008	1635.00	American Financial Partners, LLC	Mortgage broker in MD

This is accurate.

Page A-10 paragraph 6: Appendix A states:

Date	Amount	Payable to	BSR Questions
12/12/2008	5,000.00	Gallagher Callihan Gartrell Dennis Maloney PO Box 1415 Concord, NH	What was this for?

This is inaccurate.

The amount is correct but the date is actually 12/16/2008 and the check is actually made payable to Gallagher, Callahan & Gartrell. In the memo section it states "Gallagher, Callahan & Gartrell" with the next line below that states "Denis J. Maloney" and the next line below states "P.O. Box 1415" and the last line states "Concord, NH 03302-1415".

Page A-10 paragraph 7: Appendix A states:

Date	Amount	Payable to	BSR Questions
12/29/2008	20,000	ML Asset Management	

This is accurate.

Page A-10 paragraph 8: Appendix A states:

Date	Amount	Payable to	BSR Questions
7/22/2005	60,000	CL&M	Memo file

This is accurate.

Page A-10 paragraph 9: Appendix A states:

Date	Amount	Payable to	BSR Questions
12/1/2005	90,000	CL&M	Transfer

This is inaccurate.

\$90,000 was deposited in Financial Resources in four amounts on December 12, 2005, December 14, 2005, December 1, 2005 and December 23, 2005. CL&M is not mentioned and neither is the date December 1, 2005. The word Transfer is mentioned on the first deposit.

Other FRM Financial Notes

Page A-10 paragraph 10: Appendix A states: FRM Operating checking account number was #990903-767-7 at Citizens Bank.

This is inaccurate. NHBD records indicate this is a Citizens Bank Operating Account Statement, statement period Beginning March 01, 2007 through March 31, 2007 and it is for account #330403-767-7. The Report has the wrong bank account number.

Page A-10 paragraph 11: Appendix A states: According to Financial Statements, net income for 2003 was \$159,752; 2002; net income was \$534,713; cash was \$8,919 in 2002 and \$56,195 in 2003.

This is inaccurate.

The net income for 2003 was actually \$80,860. Remainder is accurate. See also Page A-8 paragraph 7.

Page A-10 paragraph 12: ██████████ made a large deposit of \$23,443 on 3/15/07 to FRM. BSR unsure what this was for. There were no SBD notes for this transaction.

This is accurate.

This is an accurate deposit amount.

Page A-10 paragraph 13: Appendix A states: According to the year end of 2007 and 2006 balance sheets, notes receivable preferred shareholders decreased from \$223,300 in 2006 to \$0 in 2007; cash decreased from \$235,552 in 2006 to \$132,667 in 2007; retained earnings improved from -\$463,739 in 2006 to -\$213,950 in 2007.

This is accurate.

No discrepancy.

Page A-10 paragraph 14: Appendix A states: According to the income statements for the year end of 2007 and 2006, net income decreased from \$302,374 in 2006 to \$249,789 in 2007; and revenue decreased from \$7,199,541 in 2006 to \$6,025,220 in 2007.

This is accurate.

No discrepancy.

Page A-10 paragraph 15: Appendix A states: According to the 12/31/07 Balance Sheet, the common stock balance was \$15,000. Connors and Associates notes to Financial Statements December 31, 2007 and December 31, 2006 stated “the nature of operations is the company sells various notes and will occasionally provide financial funding on a short financial basis to individuals and businesses.”

This is inaccurate.

The quote above is incorrect according to NHBD records. Under I. Summary of significant accounting policies, with a subheading of Nature of operations, the quote is: “Financial Resources National, Inc. (the Company) is a New Hampshire corporation that derives a significant portion of its income from commissions on the brokerage of mortgages with various unrelated third party finance companies. Additionally, the

Company brokers private financing and purchases and sells various notes, accounts and mortgages receivable on the secondary market and will occasionally provide financial funding on a short term financing basis to individuals and businesses. The primary geographic funding area is the Northeast with secondary revenue sources throughout the continental United States."

Documentation on Enforcement/Discussion Issues at SBD

Page A-11 paragraph 1: Appendix A states: 2003 Insurance Bond issues. SBD required upgrade to \$100,000. Also, FRM bond was cancelled 3/3/09. No apparent action taken.

This is inaccurate.

- *NHBD records show that 2003 Insurance bond issues were discussed.*
- *NHBD letter dated January 15, 2003 to Scott Farah of Financial Resources & Assistance of the Lakes Region Inc. does indicate the company must increase its bond to \$100,000.*
- *There was a letter dated March 20, 2009 from NHBD to Scott Farah of Financial Resources Mortgage, Inc. which includes in an attached document the Notice of Cancellation of Bond. The Notice of Cancellation of Bond is signed and dated March 3, 2009 but the Bond itself is to cancel with an effective date of May 12, 2009.*
- *A new bond was issued so the statement above "No apparent action taken" is inaccurate.*

Page A-11 paragraph 2: Appendix A states: 11/16/05 Inter-office memo from Kim Griffin to Mary Jurta. First instance of a recommendation for hearing "Show Cause" based upon findings on the exam dated 10/11/04 and report dated 9/21/05. There was no response to this email in the file.

This is inaccurate.

NHBD records indicate all information is accurate except the statement above that there was no response to this email in the file. Mary Jurta writes the responses on the actual memo as seen in the document itself and then sends to legal.

Page A-11 paragraph 3: Appendix A states: 12/20/05 Order to Show Cause-Docket #05-071. Signed by Andrea Shaw and Bob Fleury. Order to Show Cause states, "FRM and Mr. Farah have illustrated a willingness to forgo the law and rules of the State of New Hampshire whenever they see fit."

This is inaccurate.

- *The Order to Show Cause is signed by Robert A. Fleury (not Bob Fleury). The Statement of Allegations is signed by Andrea J. Shaw.*
- *In Section II of the Statement of Allegations, paragraph 10 states "Revocation of said licenses is in the public interest as FRA and Mr. Farah have illustrated a willingness to forgo the laws and rules of the State of New Hampshire whenever they see fit."*

Page A-11 paragraph 4: Appendix A states: 1/17/06 e-mail from Andrea Shaw to Kim Griffin. Farah's Attorney requested a hearing. The hearing was scheduled for 3/9/06 or 3/14/06. No notes found indicating whether a hearing took place or what prompted the request.

This is inaccurate.

- *Date, names, and Attorney are all correct for the first sentence above.*
- *The hearing was not scheduled. The email from January 17, 2006 from Andrea Shaw states she was "hoping to set it for Tuesday March 9 or Tuesday March 14 at 10am.*
- *The OTSC for the GLBA violations was the reason Farah, through his attorney, requested a hearing.*
- *March 9, 2006 was the notice of hearing.*
- *See Page A-11 paragraph 6. A tentative settlement was reached so no hearing would have taken place.*

Page A-11 paragraph 5: Appendix A states: 1/19/06 Show Cause Hearing Order signed by Robert Fleury citing 2004 alleged exam violations sent to FRM; i.e., Gramm Leach Bliley Act violations: Information requested not provided on a timely basis. Ordered that the licensee appear at SBD Dept. Thursday, 3/9/06. Todd Wells to serve as Presiding Officer. Ordered that all proceedings be recorded and transcribed by Court Reporter. No documentation was found this meeting took place.

This is inaccurate.

- *This is a Notice of Hearing dated January 19, 2006, which is based on the Order to Show Cause.*
- *Remainder appears to be accurate.*

Page A-11 paragraph 6: Appendix A states: 3/9/06 tentative settlement reached by SBD with FRM; AJS to draft agreement (\$17,000 fine). No draft agreement within file.

This is inaccurate.

- *There is a draft agreement in the file. It is a Consent Order for Docket #05-071 has what appears to be a post it on the draft which is from Andrea J Shaw dated 4/24/06 which states "FRA's lawyer requested a lower fine – I dropped to \$15K from \$17K. I plan to (sic) over payment plan if need be."*

-Remaining provisions appear to be accurate.

Page A-11 paragraph 7: Appendix A states: 5/18/06 SBD Examination conducted from 5/18/06-6/2/06 contemporaneous to issuance of subpoena by Mr. Hildreth.

This appears to be accurate.

Page A-11 paragraph 8: Appendix A states: 5/24/06 e-mail from Andrea Shaw to Mary Jurta recommending "Show Cause" order and that no further negotiations take place.

This is inaccurate.

The email is from Mary Jurta to Andrea Shaw (not the other way around) and states in part "Based on this, I would recommend that we not engage in any further settlement negotiations, but instead prepare to issue a show cause for license revocation when the exam is complete. Thanks, Mary"

Page A-11 paragraph 9: Appendix A states: 10/4/06 there was an SBD interoffice memo for a possible "Show Cause" hearing on 1/24/07. No explanation as to whether issue was closed and no referral to legal noted.

This is inaccurate.

- There is an Interoffice Memorandum from Kim Griffin to Mary Jurta dated October 4, 2006 regarding a recommendation that a show cause hearing is scheduled concerning the observations noted.
- It is, however, unclear as the reference to a "Show Cause" hearing on 1/24/07.
- The above statement that "no referral to legal noted" is inaccurate. The October 4, 2006 Interoffice Memorandum from Kim Griffin to Mary Jurta is the referral as noted by Mary Jurta's handwritten comment at the top of the Memorandum, which states "10/10/06 – Recommend meeting with K. Molin [] [and] A. Tsorvas to get an oral presentation of the history on these 2 exams. Legal already has a file open on this. Should issue an OTC for revocation [] [and] for imposition of penalties for GBL violations among others."

Although there were more than 70 violations noted by SBD examiners from 2000 to 2009, the following are noted major infractions, most of which were repeatedly found:

NHBD does not characterize violations or observations in the reports of examination as major or minor.

Page A-11 paragraph 10: Appendix A states: Lack of Notarized financials

This is inaccurate.

NHBD cannot find lack of notarized financials or a reference thereto in the NHBD reports of examination. It is mentioned in the Licensing files.

Page A-11 paragraph 11: Appendix A states: Financials not submitted on a timely basis

This is accurate.

In the October 11, 2004 NHBD Report of Examination, NHBD did cite on page 3, #5 "Pursuant to NH RSA 397-A:13... The licensee filed a financial statement in 2004 within the mandated time period however, not all of the required financial documents were submitted."

Page A-11 paragraph 12: Appendix A states: Missing financials

This is accurate.

In the November 17, 2008 NHBD Report of Examination, NHBD did cite on page 6, #12, "NH RSA 397-A:13,V...a. The licensee failed to provide quarterly financial statements. b. The licensee failed to provide year-end financial statements."

Page A-11 paragraph 13: Appendix A states: Zero or negative capital position

This is accurate.

In the May 9, 2001 NHBD Report of Examination, NHBD did cite on page 3, under II. Records, under 2. "...The statements indicate that at year-end December 31, 2000 the Company has no liquidity and is insolvent in that it reports \$0 in Cash and Cash Equivalents with outstanding liabilities of \$699,662."

Page A-11 paragraph 14: Appendix A states: Inadequate insurance bonding

This is inaccurate.

NHBD cannot find inadequate insurance bonding or a reference thereto in the NHBD reports of examination. Bond issues are discussed in the Licensing files.

Page A-11 paragraph 15: Appendix A states: Unreasonable closing costs/fees

This is accurate.

In the November 17, 2008 NHBD Report of Examination, NHBD did cite on page 3, #4, "NH RSA 397-A:2,III...The YSP dollar amount range was unreasonable in the Bouchard and D'entremont loan files."

Page A-11 paragraph 16: Appendix A states: Missing closing documents

This is accurate.

In the May 9, 2001 NHBD Report of Examination, NHBD did cite on page 7, IV. Procedures, #4, "The files pertaining to refinances were missing the required 'Right of Rescission' disclosure."

Page A-12 paragraph 1: Appendix A states: FRM working with unlicensed entities

This is accurate.

This was cited in the November 17, 2008 NHBD Report of Examination on page 2.

Page A-12 paragraph 2: Appendix A states: FRM generally not responsive to exam requests

This is inaccurate.

The terminology above is not cited violation of law in an NHBD Report of Examination.

Page A-12 paragraph 3: Appendix A states: Unapproved Corporate name changes

This is inaccurate.

NHBD does not approve corporate name changes for licensees. This is done by the NH Secretary of State. NHBD does not cite this as a specific violation in its Reports of Examination.

Page A-12 paragraph 4: Appendix A states: "Puffing" of investment property values

NHBD is unable to confirm this violation or cite to it in any NHBD Report of Examination.

Page A-12 paragraph 5: Appendix A states: Construction residential loans made to look like commercial loans

This is inaccurate.

In the November 17, 2008 NHBD Report of Examination, on page 4 #7 the actual observation is "The licensee is using 'commercial construction loan agreements' for primary residence loans."

Page A-12 paragraph 6: Appendix A states: Missing disclosure documents

This is accurate.

This was cited in the May 18, 2006 NHBD Report of Examination on page 3.

Page A-12 paragraph 7: Appendix A states: FRM (Broker) acting as a Primary Lender

NHBD is unable to confirm this violation or cite to it in any NHBD Report of Examination.

FRM was at the time a licensed New Hampshire Mortgage Banker, which gave the licensee the authority to act as a lender and/or a broker.

Page A-12 paragraph 8: Appendix A states: FRM did not maintain escrow accounts

NHBD is unable to confirm this violation or cite to it in any NHBD Report of Examination.

Page A-12 paragraph 9: Appendix A states: Mortgage application documentation

NHBD is unable to confirm this violation or cite to it in any NHBD Report of Examination. The phrase "Mortgage application documentation" is not a complete statement or observation.

Page A-12 paragraph 10: Appendix A states: Mortgage servicing issues

This is inaccurate.

NHBD does not have a specific violation entitled "Mortgage servicing issues". NHBD has found an observation in the November 17, 2008 NHBD Report of Examination on

page 2 stating the following: "2. NH RSA 397-B:2,I...The licensee is working with the unlicensed servicer, C, L and M, Inc. In the June 11, 2007 NHBD Report of Examination on page 6: "10. NH RSA 397-B:2,I...The licensee is dealing with the unregistered mortgage servicer-CL and M, Inc., Gilford, NH."

Page A-12 paragraph 11: Appendix A states: Mortgage misrepresentation

This is inaccurate.

NHBD does not have a specific violation entitled "Mortgage misrepresentation". NHBD has found in the October 11, 2004 NHBD Report of Examination on page 3, "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."

Page A-12 paragraph 12: Appendix A states: Missing Truth-in-Lending statements

This is accurate. This was cited in the May 19, 2003 NHBD Report of Examination on page 1.

Page A-12 paragraph 13: Appendix A states: Inconsistencies between verbal and written agreements

This is inaccurate.

NHBD does not have a specific violation entitled "inconsistencies between verbal and written agreements". NHBD is unable to confirm this violation or cite to it in any NHBD Report of Examination.

Page A-12 paragraph 14: Appendix A states: Failure to safeguard sensitive customer information

This is accurate.

This was cited in several of the NHBD Reports of Examination.

Page A-12 paragraph 15: Appendix A states: Improperly disposing of documents

This is accurate.

This was cited in the October 11, 2004 NHBD Report of Examination on page 3.

Page A-12 paragraph 16: Appendix A states: Lack of written policies and procedures

This is accurate.

This was cited in the October 11, 2004 NHBD Report of Examination on page 4.

Page A-12 paragraph 17: Appendix A states: Failure to amend license application for change in ownership

This appears to be accurate.

This is for the most part an accurate description of a violation that would appear in an NHBD Report of Examination. It appears in the May 18, 2006 NHBD Report of Examination on page 2, "1. Pursuant to NH RSA 397-A:10,IV, Change in Name; Ownership; Location. The licensee failed to amend its license application within 30 days of a change in ownership..."

Page A-12 paragraph 18: Appendix A states: Unlicensed corporate names

This is accurate.

This was cited in at least two of the NHBD Reports of Examination.

Page A-12 paragraph 19: Appendix A states: Web site did not contain appropriate disclosure statement and was misleading

This is inaccurate.

- In the May 18, 2006 NHBD Report of Examination on page 2, "3. Pursuant to NH RSA 397-A:14a,III Advertising. The licensee's web site located at www.frank.com does not contain the required statement, "Licensed by the New Hampshire banking department: (effective August 21, 2003). A similar observation was cited at the previous examination. A copy of the correction was received on June 7, 2006."

- In the May 19, 2003 NHBD Report of Examination on page 2, the observation mentions use of an unauthorized name in any advertising could be deemed as misleading but does not mention that the web site was misleading: "Use of an unauthorized name in any advertising could be deemed as false misleading or deceptive and may be in violation of the federal consumer protection act."

- Similar violations of the disclosure statement are found in other NHBD Reports of Examination but again do not mention a web site as being misleading. In the October 11, 2004 NHBD Report of Examination on page 5, there is an observation under 14.

"Pursuant to NH RSA 397-A:3" which mentions in part "...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 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. "

Page A-12 paragraph 20: Appendix A states: No balloon disclosure statements

This is accurate.

This was cited in several of the NHBD Reports of Examination.

Page A-12 paragraph 21: Appendix A states: No yield-spread premium disclosures

This is accurate.

This was cited in several of the NHBD Reports of Examination.

Page A-12 paragraph 22: Appendix A states: Incorrect HUD-1 statements

This is inaccurate.

NHBD does not have violations that are entitled "Incorrect HUD-1 statements" but usually uses RESPA violation in the observation. This is otherwise accurate. RESPA violations were cited in several of the NHBD Reports of Examination.

Page A-12 paragraph 23: Appendix A states: No lists of withdrawn/denied applications

This is accurate.

This is a violation that would be normally under an observation entitled "Recordkeeping" or "Reports". In the May 18, 2006 NHBD Report of Examination on page 5, "13. Pursuant to NH RSA 397-A:13, V Reports... The licensee does not maintain a control list of Denied/Withdrawn applications to keep track of what is in its pipeline..."

Page A-12 paragraph 24: Appendix A states: Not having files available or missing

This is inaccurate.

NHBD does not have violations that are entitled "Not having files available or missing". -However, in the October 11, 2004 NHBD Report of Examination on page 5, there is the following observation: "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], [REDACTED] and [REDACTED]."

- In the June 11, 2007 NHBD Report of Examination on page 4 "5. Pursuant to NH RSA 397-A:11, I Record Keeping. The following withdrawn loan application files were not available for examination: [REDACTED]; and [REDACTED]. The control list indicates the applications were withdrawn 6/1/06 and 10/1/06, respectively. Management

indicates the date of withdrawal was a clerical error. The applications were taken during the year 2004. The NH statute requires record retention for a period of 3 years."

Page A-12 paragraph 25: Appendix A states: Failure to notify of significant events including litigation and BSR actions

This is accurate.

This was cited in several of the NHBD Reports of Examination.

Other Key Notes from Files

Page A-12 paragraph 26: Appendix A states: Financial Resources Mortgage, Inc. (FRM) licensed as Mortgage Banker/Broker. Licensing: 5902-MB.

This is inaccurate.

The License number is correct. However, FRM used to be a First Mortgage Banker and Broker.

Page A-12 paragraph 27: Appendix A states: 9/6/06 SBD exam – same issues identified as previous exam. Note in file says SBD is waiting for ROE/response to proceed with license revocation

This is inaccurate.

This was a May 18, 2006 exam, not a 9/6/06. The same issues were identified because "The following summary of the findings presented in the October 11, 2004 Report of Examination were reviewed to determine compliance: advertisement licensing disclosures; failure to report significant events; the use of an unlicensed corporate name and un-registered trade names; the filing of complete financial statements in a timely manner; implementation of the Gramm-Leach-Bliley Act and the safe guarding of consumer information; the incorrect reporting of mortgage broker fees on the HUD settlement statement; the HUD incorrectly reporting payments to the licensee instead of the 3rd party service provider; and the maintenance of a consumer complaint file;"

Page A-12 paragraph 28: Appendix A states: 2/9/07, note in SBD exam file that FRM "had essentially fixed all outstanding issues." SBD stated they were closing the case (Order to Show Cause – Docket #05-071) without further action. (JAS?)

This is inaccurate.

Docket entry in NHBD records docket database shows an entry dated 2/29/07 for docket #05-071. The entry states "Delay for unknown reasons. In the meantime nex (sic) exam went down and they had essentially fixed all outstanding issues. Closing case without further action. JAS"

An Interoffice Memorandum from Michele Kelleher to Celia Leonard dated December 8, 2009 and entitled "Financial Resources, Mortgage, Inc. (f/k/a Financial Resources &

Assistance of the Lakes Region, Inc. and f/k/a Financial Resources National, Inc.) and Scott D. Farah” states in part “Docket #05-071 Appears Docket opened based on a referral from examinations per 2004 exam, OTSC, issued, hearing scheduled for 03/09/06, all parties agreed to postpone hearing based on settlement talks, tentative settlement reached, settlement drafted (\$17,000 fine), next exam done – same issues found, waiting ROE/response to proceed with license revocation, delayed for unknown reasons, next exam done and all outstanding issues, fixed, closed with no further action.”

Page A-12 paragraph 29: Appendix A states: Within the 2007 SBD Audit File, there was a letter dated 6/19/07 and signed by Scott Farah that states “FRA has no ownership interest and no management involvement in the office space from the same landlord as FRA at 15 Northview Drive in Meredith.”

This is inaccurate.

There is a typed letter dated June 19, 2007 but the quote is wrong and the signature on the document is not clear that it is Scott Farah's signature. NHBD Examiner Cloutier verified this letter had Scott Farah's signature by reviewing other documents that Scott Farah's signature included.

The June 19, 2007 letter states “Please note that Financial Resources & Assistance of the Lakes Region, Inc. (FR&A) has no ownership interest and no management involvement in the commercial loan servicing company, CL and M, Inc., which, as one of four tenants, rents office space from the same landlord as FR&A at 15 Northview Drive in Meredith, NH. CL and M, Inc. maintains its corporate address and mailing address in Gilford, NH.”

Page A-12 paragraph 30: Appendix A states: 10/13/06 Letter from Atty. Dennis Maloney of GCG, to FRM re: Gramm-Leach-Bliley risk assessment. Also mentions Susan LeDuc of Gallagher as Regulatory Specialist at \$150 per hour.

This is inaccurate.

- The name of the Attorney is actually Denis J. Maloney.

- The letter specifically states in part “We are writing to acknowledge your retention of our firm with respect to assisting you with state regulatory matters and to confirm our billing arrangements. Specifically, our near-term activity will include the performance of a Gramm-Leach-Bliley risk assessment. Other regulatory assistance may also be provided as requested.”

- Remainder is accurate.

Page A-12 paragraph 31: Appendix A states: of 14 closings looked at in '06 exam, ten lacked proper documentation. Gould and Burke Law Firm did closings. Examiners found that residential loans were made to look like commercial loans. Missing documents. Documents not sent to borrower. Borrowers made payments to CL&M. Licensee working with unlicensed entities, i.e., [REDACTED], [REDACTED], CL&M.

This is inaccurate.

- *It was not ten closings that lack proper documentation. There were 7 loans that lacked proper documentation.*
- *Gould and Burke did not do all the closings, contrary to what is implied above. The Report of Exam states Gould and Burke occasionally serves as a settlement agent. There is a HUD settlement statement included by NHBD Examiner May which shows a different closing company.*
- *The Report of Exam does not state that Financial Resources used unlicensed entities or that borrowers made payments to CL&M.*
- *The unlicensed entities were in the 2008 exam, not the 2006 exam.*

Page A-13 paragraph 1: Appendix A states: 2/17/06 e-mail from Michael Burke to Andrea Shaw – Mr. Farah wants consent agreement. Please send proposal draft. Concerned about size of fine.

This is inaccurate.

The February 17, 2006 email from Michael Burke to Andrea Shaw actually states "Andrea: Thank you for taking the time to speak with me today regarding the complaint in the above-referenced matter. I have spoken to Scott Farah who has indicated a desire to enter into a consent agreement. I understand that you will be sending me a proposed draft of the agreement. In speaking with Mr. Farah he wished me to convey his concern about the size of the proposed fine and explore a possible way to bring it into line with his business concerns. I look forward to speaking with you next week. Michael Burke"

Page A-13 paragraph 2: Appendix A states: 4/13/06 letter from Jane Rosenberg (Shaheen & Gordon law firm) to Andrea Shaw. "Dear Ms. Shaw, Thank you for speaking with me today about Financial Resources Mortgage. Please let this correspondence serve as request for the Show Cause Order that SBD issued to this corporation."

This is inaccurate.

- *The letter actually states "Dear Ms. Shaw, Thank you for speaking with me today about Financial Resources & Assistance of the Lakes Region, Inc. Please let this correspondence serve as a request for the Show Cause order that the Banking Commission issued to this corporation. Please contact me at the number below if you have any questions or concerns."*
- *The letter is not from Jane Rosenberg; it is actually from James D. Rosenberg.*

Page A-13 paragraph 3: Appendix A states: 4/24/06 e-mail from Andrea Shaw to Michael Burke. "Hi Mike, I just handed a draft consent order to our General Counsel for review. Once she signs off on it, I'll send it out for your review and comments."

This is inaccurate.

The April 24, 2006 email from Andrea Shaw to Michael Burke actually states "Hi Mike – I just handed a draft Consent Order over to our General Counsel for review. Once she signs off on it, I'll send it out for your review/comments."

Page A-13 paragraph 4: Appendix A states: 4/27/06 e-mail from Andrea Shaw to Laurie Dorgan of the Concord Monitor, “Commissioner Hildreth requested I fax you the Order to Show Cause in the above captioned matter” (FRM).

This is inaccurate.

- This was not an email; it was a fax.

- The facsimile transmittal sheet does not state that Laurie Dorgan is from the Concord Monitor.

- The text quoted above is incorrect. The text is actually from the facsimile transmittal sheet from NHBD. The quote is “Commissioner Hildreth requested that I fax you a copy of the Order to Show Cause in the above captioned matter.”

Page A-13 paragraph 5: Appendix A states: 5/26/06 SBD exam notes by Joseph Rouleau, Examiner: “Farah manipulated examiners time from how long interviews could be, to abruptly saying he was going on vacation, to claiming illness during exam dates, to assigning responsibility to another employee for getting specific information which the employee could not produce but claimed Farah had, to never having financials readily on hand, to not wanting examiners to interview employees, to wanting examiners to give 1 month notice of exams.” Farah claimed Auditor had financials and Auditor claimed Farah had financials.

This is inaccurate.

- The quote does not exist as is. It is a summary of notes by NHBD Examiner Joseph Rouleau that are six pages in length.

- The last statement regarding “Farah claimed Auditor had financials and Auditor claimed Farah had financials” is a summary of conversations that appear to have taken place between Scott Farah and Joseph Rouleau and the accountant.

Page A-13 paragraph 6: Appendix A states: Farah’s onsite response to onsite file request on 10/27/08 was, “I am scheduled to be out of the country from November 16-19 2008”.

This is accurate.

NHBD records indicate this October 27, 2008 letter is accurate. This letter from Scott Farah also states “Using the Department’s format, a list of all New Hampshire 1-4 family loan files originated, funded, closed, denied or withdrawn, cancelled or serviced during the period May 11, 2007 to October 1, 2008 is enclosed. FRM is the creditor and servicer on only (1) loan during this period.”

Page A-13 paragraph 7: Appendix A states: 10/4/06 Inter-office memo from Mary Jurta to Kim Griffin includes recommendation for “Show Cause.” Also states that licensee (FRM) had been referred to legal for Administrative Action on 11/16/05 for violations: 397-A:10,I; A:13; A:12,I; A:12,IV.

This is accurate.

This is an accurate account of the NHBD Inter-office memo.

Page A-13 paragraph 8: Appendix A states: 6/11/07 Examination -- 25 loan files were reviewed consisting of 22 first mortgage notes and 3 second mortgage notes. Many missing documents were noted. There were 20 violations noted.

This is inaccurate.

- The number of loans mentioned is incorrect. NHBD Examiner Lessard's and Examiner Rouleau's notes indicate more than 25 loans. It is unclear how many Examiner Rouleau reviewed, but Examiner Lessard's appears to have reviewed 22 closed 1st loans and 2 closed second loans.

- The rest of the information is accurate.

Page A-13 paragraph 9: Appendix A states: 11/30/07 memo from Susan LeDuc to Kim Griffin. Action plan in response to 6/11/07 examination.

This is inaccurate.

All information is correct except this is not a memo. This is a letter from Susan LeDuc (a response to the examination).

Page A-13 paragraph 10: Appendix A states: 12/24/07 letter to Susan LeDuc from SBD. No enforcement actions are contemplated...we have closed out file on this matter (Order to Show Cause – Docket #05-071).

This is inaccurate.

- The letter, names mentioned and date of the letter are correct.

- The text of the letter mentioned above is incorrect.

- The letter states in part "Since no enforcement action is contemplated in these matters at this time, we have closed our file in this matter." Docket #05-071 does not apply to the 2007 examination; it is the 2006 examination to which this applies. Securities took the quote out of context.

Page A-13 paragraph 11: Appendix A states: 1/11/08 FRM name change requested; i.e., Financial Resources National, by Gallagher law firm. Later rescinded request.

This is inaccurate.

The first part herein (the Gallagher letter) is accurate. The name change is from Financial Resources & Assistance of the Lakes Region, Inc. to Financial Resources National, Inc.

The portion of the Appendix A statement regarding "later rescinded request" is inaccurate. It was yet another name change. The document is actually from Financial Resources Mortgage, Inc. dated October 27, 2008 and states that "'Financial Resources National, Inc.," formerly 'Financial Resources & Assistance of the Lakes Region.,' has undergone several name changes in recent years to better project and evidence interstate lending operations. In recent years, the company adopted a corporate name with the word 'National' as part thereof; this phrase has caused unexpected difficulties in several jurisdictions and the company has determined that it is in its best interests to again change its corporate name.

Please be advised that 'Financial Resources National, Inc.' has changed its corporate name to 'Financial Resources Mortgage, Inc.' affected by filing with the New Hampshire Secretary of State on October 10, 2008."

Page A-13 paragraph 12: Appendix A states: 6/22/09 letter from CL&M to (redacted). Bridge loan approved for \$1.5 million.

NHBD cannot specifically confirm this statement.

NHBD records include a letter to NHBD from [REDACTED] dated November 13, 2009. The letter mentioned a \$1.5 million loan. The letter states in part: "This week Mr. [REDACTED] spoke to Mr. [REDACTED] and Mr. [REDACTED], the two borrowers, and learned that they had not paid any interest on our funds. He was further advised by Mr. [REDACTED] that the Bankruptcy Court refused in April, 2009, to approve the loan. Scott Farah never told us this information or there had been a hearing on the matter before the Bankruptcy Court. We also learned that a \$1.5 million loan on the subject property was supposed to settle this Friday November 13, 2009, through Financial Resources, according to Scott last week."

Page A-13 paragraph 13: Appendix A states: that 10/24/09 SBD Subpoena for Gould & Burke to produce FRM documents. No file information, including correspondence, memos, or other details regarding what documents were requested.

This is inaccurate.

NHBD records reflect that the subpoena and Exhibit A to the subpoena exist. Additionally, there is the copy of Securities' examiner post-it notes showing they requested copies of "both pages" on the bottom right hand corner of the page. There is some correspondence in the file as well. Namely, a letter dated November 23, 2009, an email dated November 30, 2009, and two certificates of service both dated November 12, 2009.

One point of clarification. There are two separate subpoenas:

One subpoena discusses Financial Resources Mortgage Inc., Scott Farah, Donald E. Dodge, CL and M, Inc. (possible d/b/a Commercial Project Loan Servicing), Commercial Project Loan Servicing (possible d/b/a CL And M, Inc.).

The other subpoena discusses [REDACTED], [REDACTED], [REDACTED], [REDACTED], Financial Resources & Assistance of the Lakes Region (possible d/b/a Commercial Project Loan Servicing and/or CL And M, Inc.), Financial Resources National Inc., Financial Resources Construction Loans, Dak Financial Group, and [REDACTED].

Page A-13 paragraph 14: Appendix A states: Recent SBD File not dated entitled Research re: 09.125: The file contained Newspaper Articles, Wikipedia definitions of Residential Mortgage and Commercial Mortgages, 1933 Securities Act, Sec. 4 Exempt Transactions; US Supreme Court decisions; SEC vs. Howey Co. (5/46); Reeves vs. Ernst & Young (11/89); Belknap County Registry of Deeds search for Greatland Project Development; Donald Dodge; Law office of Gould & Burke; Gilford, Laconia, Meredith, Kinston, yellow pages; JLN Enterprises.

This is inaccurate.

- The NHBD file is entitled "Financial Resources Mortgage, Inc. Research and has a docket number of 09-127.
- The NHBD file does contain newspaper articles.
- The Wikipedia definitions included in the NHBD file are actually of "Mortgage" and "Commercial mortgage" NOT "Residential Mortgage" OR "Commercial Mortgages"
- The reference is to the document entitled 1933 Securities Act, Sec 4 Exempt Transaction in the NHBD file is accurate.
- The US Supreme Court Decisions in the NHBD file are only of the Howey case and the Young case.
- The NHBD file does contain the Belknap County of Registry of Deeds search for Greatland Project Development. Other county registry of deeds were also researched. The Appendix A statement above also fails to mention the NHBD file also contains research done on [REDACTED] and [REDACTED] and Secretary of State research on [REDACTED].

Page A-14 paragraph 1: Appendix A states: Greatland Project Development: Mortgage Security Agreement & Assignment from Realty Trust; Town of Meredith, tax lien; Washington Mutual; Wells Fargo; (redacted); plus six other private lenders.

This is inaccurate.

- Greatland Project Development includes a mortgage security agreement and assignment from [REDACTED].
- The registry of deeds entries for Greatland Project Development do not include Washington Mutual, Town of Meredith and Wells Fargo as grantors. These registry of deeds entries are for Greathead, not Greatland.
- Records from the registry of deeds do not clearly show there are six other private lenders. Most of the listings simply refer to "Pensco Trust Co Custodian".

Page A-14 paragraph 2: Appendix A states: DAK Financial Group, LLC (DAK): Business ID 427218, created 1/03, was located at 15 Northview Drive, Meredith, NH, DAK and was an insurance company located within the same building as FRM.

This is inaccurate.

This materially is taken from the New Hampshire Secretary of State print outs for the companies of DAK Financial Group, LLC and DAK Financial Group.

- The business ID and the creation date for DAK Financial Group, LLC as mentioned is correct. However, DAK Financial Group, LLC has a business address of 34 Franklin Street, Ste 205, Nashua, NH 03064.
- DAK Financial Group (no LLC attached to the name) is the one with a business address of 15 Northview Dr, Meredith, NH 03253. The Business ID is 201496 with a creation date of 12/7/1993.

Page A-14 paragraph 3: Appendix A states: 5/24/2006 Exam Notes state, "I (examiner) requested to look at the commercial loan side of the house. Scott said that he thought that wasn't going to be involved but I explained that my notes said 99% of his client fees were generated through commercial loans...He said he didn't think he had 10 NH clients." BSR

auditors confused because the SBD auditor in the related examination states; “the commercial lending activities compromise approximately half of the company’s revenues while consumer lending and brokering activity make up for the other half.”

This is inaccurate.

- Examiner quotes are not entirely accurate. First quote is when exam started; the second quote was in the completed Report of Exam.

- The first quote is actually “I also requested to look at the commercial loan side of the house. Scott said that he thought that wasn’t going to be involved but I explained that my notes said that 99% of his client fees were generated through commercial loans and so we would be interested in doing that. I asked for 10. He said he didn’t think he had 10 New Hampshire and so I asked him to supply however many he had.”

- The sentence prior to the second quote is taken from the Report of Exam and states “The licensee business is divided into residential and commercial lending services.”

Page A-14 paragraph 4: Appendix A states: Auditors’ notes for the May ’06 audit state that on 5/24/06 the auditors “Asked to look at Commercial Loan files.”

This is inaccurate.

The quote is incorrect. See Page A-14 paragraph 3 above. The auditors did ask to look at commercial loans but that quote was not in the notes.

Page A-14 paragraph 5: Appendix A states: 10/12/09 the contact person at FRM for the SBD changed from Scott Farah to Richard Rollock. Mr. Rollock is referred to as a CPA in various correspondences.

This is inaccurate.

- The contact person actually changed on March 30, 2009, not October 12, 2009.

Page A-14 paragraph 6: Appendix A states: Christine LeDuc’s title is receptionist. Christine LeDuc’s response to #7 within the 6/11/07 Exam states, “FRA does not prepare quarterly financial statements and does not choose to pay its CPA to prepare financial statements unless there is a regulatory requirement to do so.”

This is inaccurate.

Christine LeDuc did work as a receptionist for Financial Resources but her name is listed as Christina LeDuc. Christina LeDuc did not write the November 30, 2007 response mentioned above. The response is accurate but was signed by Susan LeDuc.

Page A-14 paragraph 7: Appendix A states: From the SBD Mortgage Banker Office Questionnaire signed by Scott Farah and notarized by Rhonda Vappi for the Exam start date 2/23/07, “Nancy O’Connor and Christine LeDuc review all files to ensure documentation quality and compliance.”

This is inaccurate.

The quote above is false. Question 7 of the Officer Questionnaire (not Office Questionnaire as mentioned above) has the following response, wherein Christine LeDuc is not mentioned at all: "FR&A does not have an internal audit function; however, it ensures compliance with applicable laws and regulations via an ongoing training process and a quality control review which reviews the documents. The Compliance Officer for FR&A is Ms. Rhonda Vappi. Nancy O'Connor and Melissa Colpitts also review all files to ensure documentation quality and compliance. Technical assistance for compliance issues is provided by Gallagher, Callahan & Gartrell, P.C. in Concord, NH."

- The remainder of the above is accurate.

Page A-14 paragraph 8: Appendix A states: There were around 30 Insurance/Annuity/Variable Universal AIG (redacted) resident individual files which contained 2004 clients' statements at SBD. The Registered Representative on the account is (redacted) BSR recommended they might want to conduct an examination.

This is inaccurate.

The email is actually between Securities employees William Masuck and Kevin Moquin dated February 18, 2010. [REDACTED]. The text of the email from William Masuck (a Securities Examiner) to Kevin Moquin states

"Kevin, at NHBD there were around 30 Insurance/Annuity/Variable Universal AIG [REDACTED] resident individual files which contained 2004 clients' statements. The Representative on the account is [REDACTED] (CRD # [REDACTED]). [REDACTED]'s broker-dealer was American General Securities Inc from 10/1/02 to 3/3/06 and ING Financial Partners, Inc is his current broker-dealer located at [REDACTED]."

I think [REDACTED] should be made aware of the relation but I didn't not see anything wrong with the files. Is there a specific contact in [REDACTED]? What do you think?"

Therefore, Securities implied in its Appendix A statement above that NHBD should conduct an investigation when Securities actually meant the State of [REDACTED].

Page A-14 paragraph 9: Appendix A states: There was FRM training material within the 2008 audit file which contained a Mortgage Broker Training Outline. Outline number 11 read, "We also originate commercial real estate loans. We have a separate section on commercial loan originations. Thus if for some reason you do not have the DVD and would be interested, please contact us."

This is inaccurate.

NHBD records show only one training manual and the quote above is not in the training manual. There is no Outline 11. Commercial loans are listed under (II) under the Commercial Real Estate Loans Section.

Page A-14 paragraph 10: Appendix A states: [REDACTED]
[REDACTED]

[Redacted per Massachusetts law and agreement with Massachusetts Division of Banks.]

This is inaccurate.

All information stated herein is accurate except that NHBD did not receive [redacted] from FRM. NHBD received this letter and [redacted] on July 28, 2008.

Page A-15 paragraph 1: Appendix A states: The MA Banking Department issued a Finding of Fact and Temporary Order to Cease and Desist, Docket No. 2009-023 on June 4, 2009 based upon FRM's failure to maintain a surety bond.

NHBD cannot confirm this statement.

This should be a public document. BSR probably found this document at the Massachusetts Division of Banks website. NHBD does not have such document.

Page A-15 paragraph 2: Appendix A states: There was a letter marked "GCG Draft 10/30/09" of Mr. Maloney's October 30, 2009 letter to Jeff Spill – not on letterhead. References "baf" on letter. From box of material copied from FRM/CL&M on November 2009.

This is inaccurate.

The following information is inaccurate:

- *The letter is addressed to Jeffrey Spill, Esquire, not Jeff Spill.*
- *baf reference is to the section of the letter that states "DJM:baf", thus the initials are of the individual who typed the letter for Denis J. Maloney.*

Page A-15 paragraph 3: Appendix A states: Within the 11/17/08 SBD Report of Examination it states FRM provided the SBD a contract between CL& M and FRM. There was no contract within the exam file.

This is inaccurate.

The contract with CL and M, Inc. and Financial Resources Mortgage, Inc. was in the November 17, 2008 exam file.

Complaints after FRM closed down

Page A-15 paragraph 4: Appendix A states: Assignment of Mortgage made 9/4/09 by FRM for the benefit of Pensco Trust Company for the benefit of (redacted) IRA. \$82,000 was given by (redacted) as a mortgagor to FRM collateralized by assignments of rents and leases recorded at Book 8217 Page 253 at Hillsboro County Registry of Deeds. Due to denial of further access by the SBD, the BSR was unable to determine the specifics of the complaint.

This is inaccurate.

- The 2009 documents were captured after closure.
- The Assignment of Mortgage is made on September 4, 2009 by Financial Resources Mortgage, Inc. for the benefit of Pensco Trust Company, Custodian for [REDACTED] IRA. The loan amount is \$82,000 but the Book Number is 8127 (not 8217).

Page A-15 paragraph 5: Appendix A states: Interest payments were credited to Pensco Trust Company for the benefit of (redacted) IRA # [REDACTED] borrower (redacted) # [REDACTED] check # [REDACTED] for \$888.33 dated 10/30/09 by FRM with citizens account number (redacted) for (redacted) had a check 10/28/09 payable to the order of FRM for \$888.63 memo [REDACTED]. (redacted) was listed as a private lender. Due to denial of further access by the SBD, the BSR was unable to determine the specifics of the complaint.

This is inaccurate.

- Interest payments were not credited to Pensco Trust Company for the benefit of [REDACTED] [REDACTED], IRA # [REDACTED]. Interest only payments including late charges if any (as opposed to principal and interest of the loan) were to be credited to Pensco Trust Co, Custodian for [REDACTED], IRA # [REDACTED].
- The Borrower is actually [REDACTED] # [REDACTED].
- The rest is accurate.

Page A-15 paragraph 6: Appendix A states: Complaints filed with the SBD after the closing of FRM included a complaint from (redacted) regarding the SMM 2007 Realty Trust dated 2-26-07 in the amount of \$100,000 secured by a life insurance policy of Scott Farah.

This is accurate.

Page A-15 paragraph 7: Appendix A states: [REDACTED] sent a letter to the SBD on 11/17/09 and a copy sent to Mr. Spill via fax on 11/25/09 which read, "not received any money from individuals with the intent of investing in our business buying distressed loans."

This is inaccurate.

While [REDACTED] LLC did send a letter to NHBD dated November 17, 2009, the NHBD faxed a copy of this letter to Mr. Spill on 11/25/09. The letter actually states in the second paragraph from [REDACTED] of [REDACTED] "With the past days I have personally taken calls from the following individuals stating that Financial Resources collected money from them with the intent of investing in our business of buying distressed loans. I informed all three individuals that we have not received any money from Financial Resources and that Financial Resources had no authority to raise capital on our behalf. All three stated that they expected that answer but that they wanted to be certain."

Pensco Trust Company Information

Page A-16 paragraph 1: Appendix A states: The Portsmouth, NH location is a sales office which maintains various required documents. On a 4/12/10 conference call with (redacted) of Pensco regarding a State Investment Adviser that was advertising on their website, they stated

Pensco is regulated by the SBD, audited every 18 months, and the last time the SBD audited them was March 31, 2009.

NHBD cannot confirm this statement. It appears this is a record of a conversation between Securities Division and Pensco personnel.

Page A-16 paragraph 2: Appendix A states: A sample Pensco Trust Account Form displayed Payments and Funding Instructions with account holders name (redacted); purpose of payment (purchase mortgage); name of investment (Mortgage from redacted); amount (\$60,000); payee information (CL & M); and funding instructions (via wire citizens bank).

This is inaccurate.

- *This is not a sample Pensco Trust Account form.*
- *The payee information actually states: C L and M, Inc.*
- *All other information is accurate except that this form shows [REDACTED] is actually the investor and [REDACTED] is actually the borrower.*

Page A-16 paragraph 3: Appendix A states: A sample Pensco Trust Account Statement ((redacted) IRA) displayed current value of assets (\$123,750); current cash and equivalence (\$10,559.08); deeds, notes, property (\$123,750); loan # [REDACTED]/(redacted); Secured No 60,000; Price 1.00; market value \$60,000; current yield 16%; [REDACTED]/Secured Note 63,750; price 1.00; market value \$63,750. The note interest is credited to the account.

This is inaccurate.

- *"The note interest is credited to the account" is not stated anywhere on the statement nor implied.*
- *There is no mention of an IRA. Not sure what was redacted before the word IRA.*
- *The document actually states "TOTAL DEEDS/NOTES/PROPERTY" is \$123,750.00.*
- *The current cash and equivalence is accurate.*
- *The deeds, notes, property for \$123,750 is accurate.*
- *Loan # [REDACTED] is accurate.*
- *Technically the price of 1.00 is actually 1.0000.*

FRAUD

Page A-16 paragraph 4: Appendix A states: Spreadsheet of complaints and litigation from 1/1/00 to 2/25/09 displays twelve complaints. The spreadsheet included litigation of (redacted)ne dated 3/1/05 with Farah as the defendant alleging conspiracy to defraud. Summary Statement of Financial Resources and Scott Farah in the case of (redacted) v. Financial Resources – describes from defendant's position the agreement with plaintiff (redacted); offered to put plaintiff's father's money to work at 13% interest; late Fall '04, plaintiff sought his money; Farah told plaintiff he would need time to get liquid; various other trial documents in file, including copies of letters from Financial Resources reporting principal balances in (redacted) account FBO (redacted) for [REDACTED] - \$75,000 and [REDACTED] - \$50,000.

This is inaccurate.

- NHBD records actually shows 12 items, but only 3 of which are complaints.
- The 3/1/05 litigation is regarding Ronald Stone and Howard Stone and Farah is not alleging conspiracy to defraud. There is a column on the list entitled "Subject Matter of Litigation", which lists for the Stone litigation the following description:

Commercial loan Collection Action Breach of Contract Violation of RSA 358A Conspiracy to defraud
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- There is a summary statement which is actually Ronnie P Stone and Howard Stone vs. Robert Farah, Financial Resources, Inc. et al. The title below docket #05-C-0071 states "Defendants Financial Resources, Inc. and Scott Farah Summary Statement"
- While the summary above is correct, there are other provisions missing in the summary above. By example, Paragraph 1 of the summary statement states "Financial Resources and Associates of the Lakes Region, Inc. also known as Financial Resources, Inc., is in the mortgage brokering business and previously also did private investing on its own behalf and on behalf of certain investors. Scott Farah is the sole common stock holder of the company and the president and CEO.
- The reference to NIR is accurate but the reference in the October 10, 2003 letter from Financial Resources, Inc. to Ronnie Stone regarding FBO Howard Stone states [REDACTED] (not [REDACTED]).
- NHBD records reflect the name of the case was at one point "Ronnie P. Stone and Howard Stone v. Robert Farah, Scott Farah, Financial Resources, Inc., and Center Harbor Christian Church".

Page A-16 paragraph 5: Appendix A states: Mr. (redacted) 8/11/08 is listed on the SBD spreadsheet of litigation and complaints from 1/1/00 to 2/25/09 as fraud pending. The litigation filed in Rockingham County Superior Court was regarding a commercial loan, breach of contract, interference with contract, and negligence.

This is inaccurate.

NHBD records indicate the Department has a document entitled "Litigation of Financial Resources and Assistance of the Lakes Region, Inc." dated January 1, 2000 to February 25, 2009. It doesn't state "fraud pending". This document shows Michael Dube as complainant with the following information:

For Plaintiff, the chart states Michael Dube.

For Defendant, the chart states FRN fka FRA Scott Farah Ythomas McNeil.

For Court, the chart states Rockingham County Superior Court.

For Date of Writ, the chart states 8/11/08.

For Subject Matter of Litigation, the chart states Commercial loan TRO Foreclosure Breach of Contract Interference w/Contract Conspiracy Breach of Fiduciary Duty Fraud Negligence.

For Date of Termination, the chart states Pending.

For Disposition, the chart states Pending.

Page A-16 paragraph 6: Appendix A states: 3/17/06 Complaint filed by (redacted) (docket #06-149) alleging misrepresentation and fraud. Notes include 3/17/06 AJS letter from real estate office alleging misrepresentation.

This is inaccurate.

NHBD records indicate the complaint (from [REDACTED]) was filed February 22, 2006. This February 22, 2006 filed complaint did use the words "misrepresentation and fraud" in the letter. It is a handwritten letter sent by fax to Andrea Shaw and states "I am writing this letter in regards to a financial institution call (sic) Financial Resources of Meredith NH. Since 8-2005 I had been in the process of securing funds for a construction loan with the above lender. The individuals that represent's (sic) this company his name is Jarod King. Upon commencement of all necessary bid's (sic) need to go forward with the process of this deal, I was led to believe that all term's (sic) and commitment's (sic) were in order. A committment (sic) letter from the lender had been sent to me via fax. For the amount of \$111,000. with this the contractor had begun the foundation process. Prior to my signing date Jan 31-06 when I went to the bank, for the signing, the terms that were verbaly (sic) agreed on were not met. The understanding prior to the first signing because I was on a fixed income my budget that I need was not met. Please help Thank you [REDACTED]"

There is a 3/17/06 letter to Andrea J Shaw from Michael Burke of the Law Office of Gould and Burke. The letter is in the response to [REDACTED]'s filed complaint and does not allege misrepresentation. Quite the contrary, it continues to mention the construction loan.