

Notes Joseph Rouleau  
Log - Investigation 1  
Location - Meredith NH  
On - Financial Resources and Assistance of the Lakes Region, Inc.  
Present - Anna, Myself

Arrival 9:15

Set up

Scott meets us at 9:40

-Scott Hands docs "This is everything you requested" para.

-Scott Asked Anna question about ad for \$400 loan, Anna responded that she was not sure she will ask when she gets back

-Anna requested for an employee chart, he responded he did not know one was needed and that one might be in the paper work he handed us

- Anna asked who she would be able to contact while he is gone on vacation (first day is tomm.) He said Ronda (later he came down with Ronda to introduce us she is extension 341)

- Anna requested that I would be allowed to do interview with Him, he said yes but it must be short

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I conducted interview with Scott

What is your type of Business Licensed - 99% Broker License?

Asked about financial documents, Auditor has most information and Inter and Inter +- OS and which would be ready around July First Audit of Connor Associates since 1999 apex.

What is you basis of accounting - Cash Basis

Asked if they had an employee manual - he said yes it is in the doc he handed (check later it was in their)

Type of Business Entity - C Corp

Asked about stock - only a handful of 6 or 7 preferred are outstanding, will be reproached within 120 days

Asked # of employees - he said around 26, 21 was not to sure

Asked about number of accounts with contactor for the company- not sure question 26, 27 on review had answer

How often is financial doc done - Every Quarter

Who is the accountant for the company - Bill Connors (unable to ask questions because he is in Manchester Today)

Is their phone number to reach the Accountant - (Unable to produce, will hand in later phone number was (603)623-9868 Bill Connor of Connor and Associates.

Exhibit to:

Asked if he had any questions

He asked if we could give him a month or more notice when we showed up – Told him its part of the process to what is going on, we sometime need to make surprise visits to make sure nothing illegal is going on.

He stated that we seem to be asking a lot more questions than normal – Responded we are just check out a few things, told him the State of New Hampshire has raised its bar for exams because there has been an increase in fraud over the pass few years

Then he told a short story on how he been examination for years and years then another story on how someone had conducted fraud on their W-2, I didn't really say anything in response to the stories.

Around 10:30 came back downstairs

Asked for some more financial info. Said the account had all the info. he and one of his employees pulled a number of charts

Asked for employee chart – said it was in the document, we pulled it out asked for chart for whole organization with details (he later created one from scratch)

Asked number of small loans – he replied he has done zero from last year

I asked him, if it would be ok if I did an inspection and asked some of the employees questions, he became nervous, inquired why I would need to and whom, told him it was only be basic questions as what they do, how long they worked here etc.

He said well whom would I interview, responded mostly everyone we just needed to have an idea of the company structure, (one reason why he produced the chart)

Told him I might not even get to it today I might do it tomm. – He responded he would prefer if it were today.

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Called the accountant left a message to talk to him

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Later that day we again asked him again for more data on the financial documents he was not able to produce

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On the way back to HQ in Concord

The accountant called

Asked about the financial documents

He said that Scott had the Financial Documents that they were in a box in his office

He also told me that he has some sort of sub-contracted accountant to do most of accountant work

I also asked about the escrow account and the operations account he said that he would need till next Tuesday to prepare those, we told him we need those documents right away Tuesday was not acceptable, we need them tomm.

Exhibit to:

Asked about H&R block why they prepared the taxes for him he said that they do business with him

5/25/06

Location - Meredith NH

On - Financial Resources and Assistance of the Lakes Region, Inc.

Present - Anna, Myself

Spoke with one of the personal at 2:45 asked about financial documents for 2005, she did not know where they were, asked to see Rhonda

Spoke with Rhonda, asked for the financial documents for 2005, she said that she did not know where they were, she said she spoke with Scott at 5 yesterday. She stated that Scott told her "The documents were not here they are with the accountant"

I replied, "We spoke with Scott yesterday and the accountant, they both said that the financial documents were in his office. We also got an email from him yesterday around 3:50 that stated he had the financial documents"

She said "I will call Scott and get in-touch with him to find out where they are" We went back the file room in the basement; they patch Anna thru to Scott.

Anna spoke with Scott several times they were constantly getting disconnected  
Anna asked Scott where the documents where he did not let let us see them

We spoke with our superiors they issued a subpoena

Scott called again while this was happening and Anna inform. Him again that we needed the financial information and we were issuing a subpoena.

We went upstairs to get the subpoena from the fax machine, at the same time Rhonda walked down the hall with two good sized boxes of financial documents

We handed the subpoena to Rhonda she signed it while protesting that she was new here

That she was giving the documents to us, that having Scott appears tomm. Morning was out of the question, she was rather frustrated.

Anna explained to her that he did not need to appear so long as we had the documents.

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5/26/2006

sent fax to Rhonda at 2:00 pm

left copy of this fax in folder

Exhibit to:

## Anna's Notes

### Notes:

GFE's 1<sup>st</sup> and 2<sup>nd</sup> [REDACTED] YSP disclosed as 0-3% on GFE, [REDACTED] 1<sup>st</sup> disclosed as 0-2% on the GFE, [REDACTED] 1<sup>st</sup> disclosed as 0-2% on the GFE -also look into gross lender paid comp and net lender paid comp on the HUD, [REDACTED] 1<sup>st</sup> 0-3% on the HUD (jumbo loan N/A), [REDACTED] YSP 0-3% on GFE ✓

No copy of appraisal in file for [REDACTED] 1<sup>st</sup> or 2<sup>nd</sup> (appraisal fee listed POC on HUD)

**appraisal and invoice received 6/7/06,** ✓

or [REDACTED] 1<sup>st</sup> or 2<sup>nd</sup> (appraisal fee listed POC on HUD)

**appraisal and invoice received 6/7/06,** ✓

No NH Balloon Disclosure for [REDACTED] 2<sup>nd</sup>, [REDACTED] 2<sup>nd</sup> ✓

Licensee's disclosures use various trade names (see "trade names used" document) ✓

Loan origination fees to brokers have been changed to "brokers points" which are being placed on line 809 of the HUD. ✓

Print ads submitted for examination failed to include the phrase "Licensed by the New Hampshire Banking Department." ✓

Exhibit #33 table of litigation. Have these been reported as significant events?

**399-A: 4 VIII-** The licensee indicated that they have not done any small loans. ✓

Statute says they shall surrender their license if they cease doing business in person or by registered mail- has had small loan license for several years, and hasn't done any business. ✓

The licensee is disclosing the broker's fees on line 801 as an origination fee on the GFE, however they are disclosing it as a broker's fee on the HUD. Do we cite for this? YGS

**Monday 5/22/06** - licensee says he will have all the first day letter items complete for tomorrow- Tuesday 5/23/06-doctors appointment in afternoon

**Tuesday 5/23/06-** licensee will need the room in the morning so I should be coming in afternoon- Did not return on Tuesday as originally planned. Stayed in the office in the morning and then had another doctor's appointment in the afternoon. Called Scott in the afternoon to say I would not be back in and he said he was hoping to wrap things up tomorrow (Wednesday) since he was leaving for vacation. Told him things would not be wrapped up and that Kerry would be back on Tuesday of next week. Also told him that I would be needing a contact person to supply information while he was away. He said that person may not have access to all the information that we needed.

**Wednesday-** Came back with Joseph Rouleax. Scott F brought in first day letter with attachments. Said that was "everything." I told him we'll see. I also asked for a detailed org chart which Kerry had originally asked for and then I unknowingly had him only go down as far as manager on the chart. I was not aware that Kerry had already asked for a detail of the entire organization so I informed him that we would be needing that as Kerry had originally requested. 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

Exhibit to:

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.

Documents rec'd Wednesday:

Exhibit 1- Privacy Policy & Employee Handbook

Exhibit 2- Sec of State website showing in good standing

Exhibit 3- Org chart including 4 managers and president

Exhibit 7 internal audit functions

Exhibit 8- internal audit reports- licensee claims that they have already supplied most recent internal audit ( actually those were the audited financial statements)

Exhibit 10- mortgage originators- same copy of annual report that we received before, no addresses-

Exhibit 11 – significant events- he reports to legal counsel and believes that they take the required steps

Statement of profit and losses, same balance sheet and cash flows that we had already received

Exhibit 13- list of licenses issued by other states

Exhibit 14 –list of lenders –same list failed to include telephone # and contact person

Exhibit 17- Mortgage Brokerage Business Contract

Exhibit 18- list of closing agents

Exhibit 21- Balloon loan disclosure –“we rarely do balloons” but if we do we use this disclosure

Exhibit 25- list of underwriting systems

Exhibit 26- we had asked for details of financial transactions- got same p&l statement, balance sheet, and statement of cash flows

Exhibit 32- print advertisements which failed to include “licensed by the New Hampshire Banking Department

Exhibit 33- table of litigation

Exhibit 35- affiliated business disclosure

Exhibit 36- attached rate sheets

Exhibit 38- claims no criminal actions- see litigation table for civil

Exhibit 43- NH loan list?

Exhibit 49- 2 out of state locations that conduct NH business

Exhibit 51- A list of something

Exhibit A- org chart/list of employees

Question # 16- regarding stockholders says that Scott Farah owns 100% of common stock and that there are 7 other preferred stockholders which will be bought out in 120 days.

**399-A: 4 VIII-** The licensee indicated that they have not done any small loans.

Statute says they shall surrender their license if they cease doing business in person or by registered mail- has had small loan license for several years, and hasn't done any business.

Exhibit A- Somewhat of an organizational chart rec'd . More a listing of employees.

Exhibit to:

Question # 47 asks how many **total** employees for fiscal year end- answer 27 -  
Question # 48 asks how many total employees located in NH for fiscal year end- answer  
21

Actually 27 is the number outside of NH so total employees should be 48

Question # 27 asks for

**Thursday May 25, 2006**

Arrived and asked Rhonda for the box of 2005 financial information  
She said she had talked to Scott at 5pm yesterday and that box was at the accountants.  
We told her that Scott had called back and said that it was here but she would not give it  
to us. She got Scott on the phone who first said that he needed to have the accountants go  
through it and that it would not be available until tomorrow. I told him we needed it today  
he said that was not possible. There were several phone calls back and forth between  
Scott and myself

Note: Scott had mentioned as far as ownership is concerned that there were only 6 or 7  
shares of preferred stock that was going to be bought out (see questionnaire)- financial  
statements show 392,000+ in preferred stock outstanding ( based upon the balance sheet  
submitted for examination.

Exhibit to:

Appendix A Page A-13  
Paragraph 5