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8 BEFORE THE DEPARTMENT OF CORPORATIONS
9 OF THE STATE OF CALIFORNIA

10
11 In the Matter of the Accusation and Statement of) File Nos: 603-8764, 603-B616, 603-C637, 603-
12 Issues of the CALIFORNIA CORPORATIONS) C685, 603-D181, 603-D498, 603-D555, 603-
13 COMMISSIONER,) D613, 603-D623, 603-E371, 603-E413, 603-
14 Complainant,) E414, 603-E471, 603-F762, and 603-G400
15 vs.) ACCUSATION AND STATEMENT OF
16 GLOBAL MORTGAGE RESOURCES, INC., a) ISSUES
17 Delaware corporation, and SCOTT LOSCH, an)
18 individual,)
19 Respondents.)

20 The Complainant is informed and believes and based upon such information and belief,
21 alleges and charges as follows:

22 I.

23 INTRODUCTION

24 Beginning on March 17, 2003, respondent Global Mortgage Resources, Inc. (“Global”) was a
25 lender/broker licensed by the California Corporations Commissioner (“Commissioner”) pursuant to
26 the California Finance Lender Law, Cal. Fin. Code § 22000 et seq. (“CFLL”). Global’s main
27 licensed location was 14440 Myerlake Circle, Clearwater, Florida 33760. The main license number
28 was 603-8764.

1 At all relevant times, Global was incorporated under the laws of Delaware under the name of
2 Global Mortgage, Inc. Global was authorized to do business in California as Global Mortgage
3 Resources, Inc.

4 At all relevant times, Global's president was Scott Losch.

5 In addition to the main license issued on March 17, 2003, the Commissioner has issued to
6 Global 87 additional licenses to engage in the business of a finance lender and/or broker. Of these,
7 79 are currently inactive and 8 are active. The active license numbers and locations are: license
8 number 603-B616, located at 2815 Camino Del Rio South, Suite 111, San Diego, CA 92108; license
9 number 603-C637, located at 7126 Warren Sharon Road, Brookfield, OH 44403; license number
10 603-C685, located at 1140 Hammond Drive, Suite I-9150, Atlanta, GA 30328; license number 603-
11 D181, located at 109 Cude Lane, Madison, TN 37115; license number 603-D498, located at 2 S.
12 Main Street, Suite 407, Niles, OH 44446; license number 603-D555, located at 432 32nd Street,
13 Newport Beach, CA 92663; license number 603-D613, located at 801 West Bay Drive, Suite 314,
14 Largo, FL 33770; and license number 603-D623, located at 171 Market Street, Suite 109,
15 Newington, CT 06111.

16 Global has applied to the Commissioner for another six CFLL licenses, which are currently
17 pending: license number 603-E371, located at 250 Moonachie Road, Moonachie, NJ 07074; license
18 number 603-E413, located at 400 McCabe Avenue, 1st floor, Bradley Beach, FL 07720; license
19 number 603-E414, located at 9700 Rockside Road, Suite 275, Valley View, OH 44125; license
20 number 603-E471, located at 5325 Paylor Lane, Suite 200, Sarasota, FL 34202; license number 603-
21 F762, located at 246 S. Tamiami Trail, Venice, FL 34285; and license number 603-G400, located at
22 1811 Cielito Avenue, Monterey Park, CA 91754.

23 II.

24 STATEMENT OF FACTS

25 On February 21, 2007, the Department of Corporations ("Department") commenced a
26 regulatory examination of the books and records of Global. The examination was initiated in part
27 because, due to the large number of CFLL license applications submitted by Global, the Department
28 suspected that Global might be engaged in the assigning or renting of branch licenses, which is

1 known in the mortgage industry as “net branching.” Such activity is prohibited by Financial Code
2 section 22151(b), as described more fully below.

3 While Global is incorporated and does business in other states as Global Mortgage, Inc.,
4 Global is licensed in California only under the name Global Mortgage Resources, Inc. During its
5 examination, however, the Department found that the loan applications, loan disclosures, and other
6 loan documents used by Global did not use Global’s licensed name, but “Global Mortgage” or
7 “Global Mortgage, Inc.”

8 On its website, located at www.eglobalmortgage.com, Global solicited branch managers.
9 The website offered 100% commissions to branch managers and offered them services such as
10 licensing.

11 Global provided the Department with a copy of its branch manual. The branch manual states
12 that branch managers must maintain a checking account with Bank of America, which Global uses to
13 pay branch expenses. According to the manual, Global charges the branch \$495.00 per “closed file,”
14 with a monthly maximum of \$1,500.00.

15 In an addendum to the branch manager contract, Global provides that the branch manager
16 must pay \$1,500.00 to Global at the start of the branch manager’s employment contract. Although
17 Global states that the fee is refundable, one former branch manager stated that she did not receive a
18 refund when she left Global.

19 During its review, the Department requested to see the lease agreements for all of the then-
20 active licensed locations. Global failed to provide the lease agreements for license numbers 603-
21 B949, 603-C924, 605-3104, 603-A694, and 603-C118. When asked why, Global told the
22 Department’s examiner that its recordkeeping was not “perfect,” but it has made improvements.

23 The Department reviewed the lease agreements for license number 603-D199, located at
24 15233 Ventura Boulevard #240, Sherman Oaks, CA 91403, which is now inactive. The lease and
25 sublease agreements show that the branch manager, Max Effatian, rather than Global, is the lessee.
26 The lease agreement for license number 603-D216, which was located at 8939 S. Sepulveda Blvd.
27 Suite 320, Los Angeles, CA 90045, shows the branch manager, John Fuller, as the lessee. Global is
28 the lessee for license number 603-B616, located at 2815 Camino del Rio South #111, San Diego, CA

1 92108, but the branch manager, David Jordan, appears on the lease as guarantor for Global. For
2 license number 603-D613, located at 801 West Bay Drive, Suite 314, Largo, FL 33770, the lessee is
3 the branch manager, Nelson Wall. There is a sublease from Nelson Wall to Global, but the sublease
4 does not require the payment of rent by Global and the branch manager remains liable to the original
5 lessor. The only lease agreement provided to the Department that showed Global as the lessee was
6 the lease for the main licensed location, located at 14440 Myerlake Circle, Clearwater, FL 33760.

7 During the examination, the Department asked to see copies of all invoices for monthly
8 expenses for license numbers 603-B616, 603-B949, 603-C924, 603-D199, 603-D216, and 605-3104,
9 from April 1, 2007 through June 30, 2007. The invoices provided by Global showed that many of
10 the monthly expenses were billed to the branch manager rather than Global.

11 The Department asked Global whether it has any agreements to indemnify the branch
12 managers. Global responded that it does not have any indemnification agreements.

13 In response to an inquiry by the Department, Global provided the dates that the following
14 licensed locations had been closed: 603-D199, 603-D216, 605-3104, 603-C924, 603-B616, 603-
15 B949, 603-A694, and 603-C118. Prior to the examination, the Department was never notified by
16 Global that it was closing these branch locations.

17 On March 10, 2008, the Department received a letter from Global stating that it had closed its
18 business and was surrendering license number 603-8764, the main license. Global enclosed the
19 original license with its letter. Global's letter did not mention any other licensed locations, but
20 enclosed copies of licenses for seven other locations. Aside from license number 603-8764, Global
21 has not returned any original licenses to the Department. Pursuant to Financial Code section 22700,
22 license number 603-8764 was surrendered effective April 9, 2008.

23 III.

24 CALIFORNIA FINANCE LENDER LAW VIOLATIONS

25 Financial Code section 22151, subdivision (b), provides: "A license is not transferable or
26 assignable." Under Financial Code sections 22100 and 22152, any person engaged in the business
27 of a finance lender and/or broker must have a separate license for each location in which it engages
28 in finance lending and/or brokering activity. Therefore, net branching, or renting out a CFLL license

1 to third parties, is impermissible under the Financial Code. Under Financial Code section 22010,
2 persons employed at CFLL licensed locations must be actual employees of the licensee or separately
3 licensed. Any person who independently operates a licensed location without obtaining a license
4 directly from the Department of Corporations is engaged in impermissible net branching.

5 As shown above, Global has applied for and been issued 87 licenses in addition to its main
6 license. When requested, Global could not produce some of the documents, such as lease
7 agreements, for its licensed locations. This shows that the locations were not operating under
8 Global's management, but were operated independently by a branch manager. Financial Code
9 section 22156 requires a licensee to keep and use books, accounts, and records that enable the
10 Commissioner to determine whether the licensee is in compliance with the law.

11 The Department's examination showed that the branch managers were not bona fide
12 employees of Global. Although the branch managers were paid by W-2s, their profits were based on
13 the net profits of the branch. Branch expenses are paid by the branch manager, not Global. Global
14 charges branches \$495 for each completed loan. The office leases were in the name of, or
15 guaranteed by, the branch managers, rather than Global. Global charged each branch a \$1,500.00
16 fee to open the branch. These facts show that Global was renting out its CFLL licenses to branch
17 managers, who were operating the licensed locations as net branches.

18 Financial Code section 22155 provides:

19 No licensee shall transact the business licensed or make any loan provided for by this
20 division under any other name or at any other place of business than that named in the
21 license except pursuant to a currently effective written order of the commissioner
authorizing the other name or other place of business.

22 Global violated this provision by using the name "Global Mortgage" or "Global Mortgage, Inc." on
23 certain loan documents.

24 Financial Code section 22109 provides that the Commissioner may deny an application for a
25 CFLL license if the applicant has violated any provision of the CFLL. (Fin. Code § 22109, subd.
26 (a)(3).) Based on Global's net branching in violation of Fin. Code § 22151, subd. (b), the
27 Commissioner has grounds to deny Global's pending applications for license numbers 603-E371,
28 603-E413, 603-E414, 603-E471, 603-F762, and 603-G400.

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Financial Code section 22169 provides:

(a) The commissioner may, after appropriate notice and opportunity for hearing, by order, ... bar from any position of employment, management, or control any finance lender, broker, or any other person, if the commissioner finds either of the following:

(1) That the censure, suspension, or bar is in the public interest and that the person has committed or caused a violation of this division or rule or order of the commissioner, which violation was either known or should have been known by the person committing or causing it or has caused material damage to the finance lender, or to the public.

Global’s net branching constitutes grounds for barring president Scott Losch from any position of employment, management, or control.

Financial Code section 22714 provides:

(a) The commissioner shall suspend or revoke any license, upon notice and reasonable opportunity to be heard, if the commissioner finds any of the following:

...

(2) The licensee has violated any provision of this division or any rule or regulation made by the commissioner under and within the authority of this division.

(3) A fact or condition exists that, if it had existed at the time of the original application for the license, reasonably would have warranted the commissioner in refusing to issue the license originally.

Pursuant to Fin. Code § 22714, the Commissioner has grounds to revoke license numbers 603-B616, 603-C637, 603-C685, 603-D181, 603-D498, 603-D555, 603-D613, and 603-D623, because Global engaged in impermissible net branching and Global applied for and obtained these licenses in order to engage in net branching. In addition, Global violated Financial Code sections 22155 and 22156.

IV.

CONCLUSION

The Commissioner finds that, by reason of the foregoing, Global has violated California Financial Code sections 22100, 22151, 22155, and 22156, and therefore it is in the best interests of the public to deny Global’s pending CFLL license applications, bar president Scott Losch from any position of employment, management, or control, and revoke Global’s outstanding CFLL licenses.

WHEREFORE, it is prayed that Global’s pending CFLL license applications be denied, that

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Scott Losch be barred from any position of employment, management, or control of any finance lender and/or broker, and that the eight active CFLL licenses of Global be revoked.

Dated: July 28, 2008
San Diego, CA

PRESTON DuFAUCHARD
California Corporations Commissioner

By _____
Joyce Tsai
Corporations Counsel