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7

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8 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**
9 **IN AND FOR THE COUNTY OF MARICOPA**

10 STATE OF ARIZONA, ex rel., TERRY
11 GODDARD, Attorney General,

Case No: CV2010-033072

12 Plaintiff,

13 v.

**VERIFIED COMPLAINT FOR
PRELIMINARY AND PERMANENT
INJUNCTIONS AND OTHER RELIEF**

14 PRINCIPAL REDUCTION GROUP, LLC,
an Arizona limited liability company, and
15 BRIAN CUTRIGHT and JANE DOE
16 CUTRIGHT, husband and wife,

(Unclassified Civil)

17 Defendants.
18

19 For its complaint, Plaintiff, the State of Arizona upon the relation of Terry Goddard,
20 Attorney General ("the State"), alleges as follows:

21 **INTRODUCTION**

22 Defendant Principal Reduction Group, LLC ("PRG") represents to consumers who
23 owe more on their house than its current market value that, for a fee of up to six-thousand
24 dollars (\$6,000), it can obtain substantial principal reductions on the consumers' mortgage
25 notes through its "strategic alliances" with investors who will purchase the notes from
26 lenders at a discount and then pass some of the savings on to the homeowners in the form of

1 a lower mortgage payment. PRG advertises its services on an internet website and in direct
2 mailers sent to thousands of targeted Arizona consumers that are designed to appear as if
3 they are from the consumers' lenders announcing possible eligibility in the lender's principal
4 reduction program.

5 The State alleges that Defendants violated the Arizona Consumer Fraud Act, Arizona
6 Revised Statutes ("A.R.S.") § 44-1521 et seq., by, among other things: actively
7 misrepresenting the existence of relationships with investors while failing to disclose that it
8 had no binding agreement with any investor whatsoever; falsely representing that PRG had
9 successfully obtained principal reductions for some of its clients; falsely representing that
10 PRG had an approximate success rate of 92% in obtaining principal reductions; actively
11 representing specific, projected results to potential clients while failing to disclose that none
12 of its clients had obtained a principal reduction through its services; falsely representing that
13 PRG's clients would get a full refund of their fees if the company was unsuccessful in
14 obtaining a principal reduction; referencing federal programs as a component of its principal
15 reduction services without substantiation or basis in fact, and; using deceptive mailers that
16 were designed to look like they were from the recipient consumer's lender announcing
17 possible eligibility in the lender's principal reduction program.

18 JURISDICTION AND VENUE

19 1. This action is brought pursuant to the Arizona Consumer Fraud Act to obtain
20 preliminary and permanent injunctive relief to prevent the unlawful acts and practices alleged
21 in this Complaint and other relief, including restitution, civil penalties, costs of investigation
22 and attorney's fees.

23 2. This Court has jurisdiction to enter appropriate orders both prior to and
24 following a determination of liability pursuant to the Arizona Consumer Fraud Act.

25 3. Venue is appropriate in Maricopa County pursuant to A.R.S. § 12-401.

26

1 13. Defendant Brian Cutright reviewed and authorized PRG's website and direct
2 mailers referenced in this Complaint.

3 14. PRG's website directs consumers who are interested in the company's services
4 to either stop by the company's office to visit one of its "seasoned consultants" or call or e-
5 mail the company.
6

7 15. Consumers who contact PRG to inquire about the company's services
8 eventually speak to a company representative who describes PRG's program to them before
9 they can purchase the company's services or sign a contract.

10 **Misrepresentations and Omissions Regarding Relationships with Investors**

11 16. PRG states on its website that it "works directly" with, is allied with, and has
12 "strategic alliances" with various types of investors who buy and sell mortgages on the
13 "secondary market."

14 17. PRG states on the "Principal Reduction Questions" page on its website that the
15 investors it is "allied with" will, after purchasing the PRG client's note at a discount, provide
16 the PRG client with a lower mortgage payment as a result of the principal reduction balance
17 of the PRG client's original mortgage note.

18 18. In or near August, 2010, PRG, through a company representative, stated to a
19 person calling the company for information about its services that PRG works with investors
20 to purchase its clients' mortgage notes at a discount from lenders and that one such investor
21 had guaranteed funds of seventy million dollars (\$70,000,000) for that purpose.

22 19. PRG failed to disclose, on its website or in any communications with potential
23 clients, that it had no written or binding agreement or guarantee with any investor to
24 purchase its clients' mortgage notes.

25 20. PRG failed to disclose, on its website or in any other communication with
26 potential clients, that it had no written or binding agreement or guarantee with any investor to

1 provide PRG clients with a lower mortgage payment as a result of the investor's purchase of
2 the consumer's mortgage note at a discount.

3 **Misrepresentations and Omissions Regarding Program Results**

4 21. In or near August, 2010, PRG, through a company representative, stated to a
5 person calling the company for information about its services that PRG has an approximate
6 success rate of 92% in obtaining principal reductions.

7 22. In or near August, 2010, PRG, through a company representative, stated to a
8 person calling the company for information about its services that one of PRG's investors
9 successfully negotiated the purchase of fifteen significantly discounted mortgage notes from
10 Wells Fargo Bank.

11 23. In or near August, 2010, PRG, through a company representative, stated to a
12 person calling the company for information about its services that some of PRG's clients had
13 successfully ended up with approximately 10% equity in their homes as the result of PRG's
14 principal reduction services.

15 24. At the time PRG made the above-referenced representations to consumers
16 regarding its 92% rate of success, the fifteen Wells Fargo principal reductions, and the 10%
17 equity results, none of PRG's clients had obtained a principal reduction through PRG or any
18 of PRG's purported investors.

19 25. In August and September, 2010, PRG, through a company representative, told
20 potential clients that they could obtain significantly lower mortgage payments as the result of
21 hiring PRG and communicated specific, projected lower mortgage payments to them.

22 26. PRG's representations to potential clients regarding specific, lowered mortgage
23 payments that they could expect as a result of hiring PRG were purely speculative and lacked
24 any substantiation, given the lack of any binding agreement requiring PRG's purported
25 investors to offer PRG's clients lower mortgage payments in the event of the investors'
26 purchase of their notes at a discount.

1 soon as there was a signed agreement.

2 34. Contrary to PRG's representation regarding when it begins work on a client's
3 file, PRG's written client agreement states that PRG will not perform any work on behalf of
4 the client until the full "enrollment fee" is paid.

5 **Misrepresentation and Omission Regarding Effect of Foreclosure**

6 35. PRG states on the "About Principal Reduction" page on its website, that it can
7 help consumers reduce the principal balance on their mortgage, even if they are in
8 foreclosure or have a notice of sale.

9 36. PRG fails to disclose on its website that once a consumer contracts with PRG
10 and is charged the "enrollment fee" of several thousand dollars, that the full amount is
11 forfeited if foreclosure proceedings are initiated on the client's property that secures the
12 mortgage note on which the consumer is seeking a principal reduction.

13 **Use of Deceptive Direct Mailers**

14 37. Since July 02, 2010, and periodically since then to at least September 10, 2010,
15 PRG disseminated or caused to be disseminated over 180,000 direct mailers advertising its
16 services, a representative example of which is attached hereto as Exhibit Two.

17 38. The direct mailer sent by PRG was mailed in a window envelope without any
18 information regarding the mailer's sender.

19 39. Exhibit Two contains the following statements:

20 a. At the top of the advertisement, PRG states the following:

21 **PRINCIPAL REDUCTION NOTICE**

22 Original Loan Amount: \$332,000

23 **MORTGAGEIT INC**

24 **Re: MORTGAGEIT INC Principal Reduction Notice**

25 b. In the body of the advertisement, PRG states, in part, the following:

26 Our records indicate that **you may be eligible for a principal**

1 **reduction on your existing mortgage loan.**

2 This offer is good until 10/14/2010 and is subject to certain conditions.
3 **No other notices will be sent and no representative will call you.**

4 In fine print at the bottom of the mailer is the only disclaimer, stating:

5 Information was obtained thru [sic] public records.
6

7 40. Neither the name "Principal Reduction Group, LLC" nor any variation of the
8 company's name, or other reference to PRG, appears anywhere on Exhibit Two.

9 41. None of the direct mailers disseminated or caused to be disseminated by PRG
10 were authorized or approved by the lenders referenced in the respective mailers.

11 42. At the time PRG disseminated or caused to be disseminated the mailers
12 represented by Exhibit Two, PRG had no knowledge regarding the named lender's
13 willingness to reduce the principal on the identified consumer's mortgage note.

14 43. At the time PRG disseminated or caused to be disseminated the mailers
15 represented by Exhibit Two, PRG had no knowledge of any offer from the named lender to
16 reduce the principal on the identified consumer's mortgage note.

17 44. Contrary to PRG's reference in Exhibit Two to "Our records indicate that **you**
18 **may be eligible for a principal reduction on your existing mortgage loan,**" PRG used
19 public records to target the recipient consumer and had no proprietary information related to
20 the targeted consumer's eligibility for a principal reduction.

21 45. Contrary to PRG's statement in Exhibit Two that "This offer is good until
22 10/14/2010", there was no deadline by which consumers could contact PRG regarding its
23 services, and PRG sent some consumers more than one mailer with new "deadlines",
24 creating a false sense of urgency in connection with the consumer's mortgage.

25 46. The mailer represented by Exhibit Two directs interested consumers to call one
26 of two listed telephone numbers for a "free phone consultation", both of which belong to

1 PRG and go directly to a PRG representative.
2
3

4 **CLAIM FOR RELIEF**

5 **Consumer Fraud Act, A.R.S. § 44-1521, et seq.**

6 Plaintiff re-alleges the prior allegations of this Complaint as though fully set forth
7 herein.

8 47. The Defendants engaged in the use of deception, deceptive acts or practices,
9 fraud, false pretense, false promise, misrepresentation, or concealment, suppression or
10 omission of any material fact with intent that others rely upon such concealment, suppression
11 or omission, in connection with its advertisement, sale or delivery of services. Such acts and
12 practices include:

13 a. While touting its “strategic alliances” with investors who will purchase its
14 clients’ mortgage notes from lenders at a discount and then offer those clients a reduced
15 mortgage payment reflecting a reduction in principal on the note, failing to disclose that PRG
16 had no written or binding agreement with any investor to purchase its clients’ notes or extend
17 any principal reduction to those clients in the form of lower mortgage payments with the
18 intent that potential clients rely on such omission in deciding whether to pay PRG for its
19 services;

20 b. Falsely representing that PRG clients had obtained principal reductions, that
21 PRG had a success rate of approximately 92%, and that PRG clients would end up with
22 about 10% equity in their property after a principal reduction;

23 c. Representing specific, favorable results to potential clients without
24 substantiation and without disclosing that none of PRG’s clients had obtained a principal
25 reduction and that PRG had no binding agreement with any investors requiring them to offer
26 PRG’s clients lower mortgage payments in the event of their purchase of the clients’ notes at

1 a discount, with the intent that potential clients rely on such omissions in deciding whether to
2 pay PRG for its services;

3 d. While referencing PRG's money back guarantee to potential clients, failing to
4 similarly disclose that PRG would retain \$1,950 as a non-refundable "processing fee" with
5 the intent that potential clients rely on such omission in deciding whether to pay PRG for its
6 services;

7 e. Misleading potential clients into believing that the chance to obtain a principal
8 reduction through PRG was enhanced by federal government programs;

9 f. Falsely representing to potential clients that work on their file would begin
10 immediately upon the client signing a contract, and;

11 g. Disseminating or causing to be disseminated misleading direct mailers
12 designed to appear as if they were from the targeted consumer's lender announcing
13 possible eligibility for the lender's principal reduction program.

14 h. At all times relevant to this Complaint, the Defendants acted willfully, in
15 violation of A.R.S. § 44-1531.

16 **PRAYER FOR RELIEF**

17 Wherefore, Plaintiff respectfully requests that the Court:

18 1. Enter a preliminary and permanent injunction against Defendants prohibiting
19 them from engaging in the unlawful acts and practices alleged in this Complaint and from
20 doing any acts in furtherance of such acts and practices, pursuant to A.R.S. §§ 44-1528;

21 2. Order Defendants to restore to all persons any money and property acquired by
22 any unlawful means or practice alleged in the Complaint, as deemed appropriate by the Court
23 pursuant to A.R.S. § 44-1528;

24 3. Order Defendants to pay to the State of Arizona a civil penalty of no more than
25 \$10,000 for each willful violation of the Consumer Fraud Act, pursuant to A.R.S. § 44-1531;

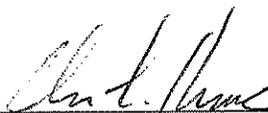
26 4. Order Defendants to pay the State of Arizona its costs of investigation and

1 prosecution of this matter, including reasonable attorneys' fees, pursuant to A.R.S. § 44-
2 1534, and;

3 5. Such other and further relief as the Court deems just and proper.

4 RESPECTFULLY SUBMITTED this 6th day of December, 2010.

5
6 TERRY GODDARD
7 Attorney General

8 By: 
9 CHERIE L. HOWE
10 Assistant Attorney General
11 Attorneys for Plaintiff

12
13 **VERIFICATION**

14 The undersigned hereby certifies that he is an investigator with the Arizona Attorney
15 General's Office and in that capacity is authorized to make this affidavit on behalf of the
16 State; that he has read the foregoing Complaint and knows the contents thereof; that the facts
17 alleged therein are true to the best of his knowledge, information and belief, based upon
18 review of the documents and information available to him.

19
20 I declare under penalty of perjury that the foregoing is true and correct.

21 Executed this 6th day of December, 2010

22
23
24 
25 Frank Curatola
26 Special Agent
Office of the Attorney General

Exhibit 1

Principal Reduction Group, LLC

Loan Transfer Professionals

Overview **How Does it Work?** **How Long Does It Take** **PRG Questions?**
About P.R.P **Contact**

Principal Reduction Overview

Principal Reduction is the direct link for consumers in this tough retail market place, that works directly with private investment groups, real estate investment trusts and private hedge funds that buy and sell mortgages on what is called the secondary market.

These funds work with all of the major and regional banks, in tandem with Federal programs made available to the public, that will negotiate directly with your bank to purchase the note and then reissue your original loan back to you, based off of the actual value of your home.

There are no credit requirements. No assets requirements. No property type requirements, only a minimum income percentage requirement.

This program is essentially a transfer of the servicing and ownership rights of your loan from your bank, to one of our private investment fund.

The program offers you the following benefits:

- **Having your current mortgage balance reduced to what your home is actually worth (CMV – current market value). *Note* – A new mortgage is not issued. Your loan is transferred from one lender/servicer to another. At that point, your balance is reduced on your behalf, by your new servicer**
- **No limit on the loan amount**
- **Any occupancy type qualifies (owner occupied, second home, investment)**
- **There are no out of pocket closing costs associated with this program as there is no new mortgage originated**
- **If you have a 1st/2nd mortgage, you still qualify.**

Because multiple loans are submitted to the same lender, you reap the benefits of having more leverage in regards to having a short payoff issued - meaning your individual characteristics are not as important to the lender as if you went to them on your own accord. There are only a few qualifications for the program.

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PRG 0055

[About P.R.P.](#)
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[PRG Questions?](#)

Principal Reduction Group

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Principal Reduction Group, LLC

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How Does it work?

There are no credit requirements to qualify for this program as this is not a new mortgage in the sense of when you purchased your home. To qualify, your DTI (debt to income) ratio must be less than 50% after your new loan is issued. After pre-qualification, either an appraisal or a BPO (broker price opinion) is ordered on your home to determine what the approximate value of your home is. Not all homes have BPO's or full appraisals ordered, unless they are in a market whose value isn't easily determined via certain sites we use online. Once we've accumulated everything we need from you to submit your file, it is then bundled with other loans received by Principal Reduction, who then adds your file to a portfolio of other loans owned by your lender. It is at the point of filling an entire portfolio that the negotiations commence.

It's then that the negotiation with the current lender to purchase the bulk of the loans is initiated. In February of 2009, Tim Geithner, the chairman of the Treasury, set aside \$50 billion dollars accessible by banks if they sell bad loans / non performing loans off their books to a private investment company. You can reference this action [here](#). Not all banks qualify, but most banks are eager to negotiate down the value of your mortgage from what it's worth on paper to prevent their capitalization calls from being too great, after your note is re-rated from A+ to B- or lower. Every time a loan is re-rated, the banks are required to increase their capitalization on hand, this is one of the main motivating factors behind why they would issue you a lower payoff than what you currently hold. Because Principal Reduction cannot guarantee the banks will accept a lesser payoff, we issue a money back guarantee, in writing, in black and white, in the agreement that you will sign between your consultant and yourself. Once your note is transferred from your bank to the new funding group, they now own the servicing rights to your loan and can write down the balance of the negative equity to the CMV of your home. Typically, your loan will be serviced for 90 days, allowing them to show you with positive payment history, which makes it easier for your loan to be repackaged and resold back to the same market that originally got rid of your loan to begin with. Mortgages are bought/sold on the secondary market with great frequency... so this is nothing new since the inception of MBS (mortgage backed securities).

PRG 0057

Principal Reduction Group, LLC

Loan Transfer Professionals

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How Long Does It Take?

The time process varies from case to case. The whole process from start to finish averages at least 6 to 8 months, but can take over 12 months depending on your lender and the portfolio that you are in.

The process starts with a Principal Reduction Group consultant getting you qualified for the program which involves gathering any and all documentation we will need. We'll also request a BPO or an appraisal... this is dictated by where you live and the type of property you live in. Your file will then be submitted to our group, it will be reviewed for accuracy one last time and to confirm you meet the qualifications, from that point, Principal Reduction only acts as a go between for you and our the end servicer of your current loan. We will communicate with you every week or so to keep you apprised of the situation and where your file is. We will do everything we can to maintain an open line of communication so you aren't wondering what's going on.

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Principal Reduction Questions?

1. What is Principal Reduction and how does it work?

Principal Reduction is a program provided through Principal Reduction Group who targets mortgage notes on the secondary market for purchase by investors with whom the organization is allied. Through these strategic alliances, Principal Reduction Group's partners negotiate to purchase the existing distressed mortgage note at a discount on the secondary market from the private investors that currently own the note. This is often accomplished through offering a larger portfolio purchase of other bundled distressed notes that reside with the same bank or investor. The investors we are allied with are able to spend less money than the value of the note to purchase distressed notes in a bundle. They, in turn, provide you with a principal reduction on the balance due on the note.

2. Does homeownership ever change during this period of time?

The private investor, with whom Principal Reduction Group is allied, "purchases" the note which enables them to offer the homeowners a reduced principal balance of the newfound note. During and after this time, home ownership remains unchanged (barring foreclosure or sale by the homeowner).

3. Why would my lender be willing to reduce my principal balance with this program?

Typically, the banks are willing to consider making these arrangements because of the scope of the entire balance of notes within the portfolio for which they are not receiving payments. Thus, the bank mitigates their losses through the sale of the entire bundle of distressed notes to Principal Reduction Group's allied partner which then yields considerable debt performance and mitigation of loss.

4. How can Principal Reduction work for me?

Principal Reduction can work for you by gaining your agreement to participate in the program. This allows PRG allied partners to locate and secure other distressed mortgage notes within your same lending institution for inclusion in the portfolio. Once these distressed notes are assembled, negotiations can be made with the lender to reduce the balance on the loans and to purchase them outright. When completed, a lower balance on the note remains for the homeowner while ownership remains unchanged.

5. What services do I get for participating in PRG Principal Reduction Program?

- 1. Analysis of the homeowners existing mortgage note including the accurate balance and current value of the property**

PRG 0060

2. A forensic audit of the note with an emphasis on violations that may exist which can be used in the negotiation process with the lender for benefit (i.e. uncovered predatory lending etc.)
3. Investigation and location of the actual investor on the note
4. A status update on the note including whether it is in a pool to be sold and/or whether or not it has recently been sold
5. A complete sales and track history of the note
6. Production of a package, including the forensic audit and price opinion to send to the lender/investor for purchase by the new investor
7. Final disposition whether the note can be sold individually and/or in a pool and/or not at all

6. Will there be closing costs associated with this?

There will be no closing costs unless the homeowner personally refinances the note elsewhere.

7. How should I handle the payment of my existing mortgage during this process?

Principal reductions can be obtained on both current and past due mortgages.

8. What qualifications are necessary to participate in the program?

Having a debt to income ratio of 38% or more based on the mortgage note not being 90% to 100% of the actual value of the home.

Having 20% or greater negative equity in the home making it a "toxic" mortgage asset.

9. Who are the parties I will be working with?

You, the client, will be working with PRG until its allied investor is able to purchase your mortgage note outright.

At that time, you will be working with the investor directly regarding the principal reduction and new terms.

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Principal Reduction Group, LLC

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About Principal Reduction

Principal Reductrion can help reduce your principal balance on your mortgage, whether you are late, in foreclosure, have a notice of sale or even if you haven't missed a payment. We help YOU benefit from all of the surplus funds the government has made available to the lenders and we go to work, making sure it goes to work for you!

Stop by our office and visit with one of our many seasoned consultants.

Loan Calculator

Amount of Loan:	<input type="text" value="Entry required"/>	
Annual Interest Rate (%):	<input type="text" value="Entry required"/>	
Term of Loan:	<input type="text" value="30 years"/>	
Monthly Loan Payment:	<input type="text"/>	<input type="button" value="Calculate"/>
<input type="button" value="Reset"/>		

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Principal Reduction Group, LLC

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Contact Principal Reduction Group

Principal Reduction Group, LLC
17200 North Perimeter Drive, Suite 101
Scottsdale, Arizona 85255

Toll Free: 866-526-0164
Local: 480-455-5000
Fax: 480-306-5017
Email: processing@prgemail.com

Contact Information

Please complete our contact form. A consultant will contact you within 24 hours.

First Name:

Last Name:

Address Street 1:

Address Street 2:

City:

Zip Code: (5 digits)

State:

Daytime Phone:

Evening Phone:

Email:

Enter comments here!

Comments:

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Exhibit 2

NOTIFICATION MAILED ON:
09/13/2010

PRINCIPAL REDUCTION NOTICE
Original Loan Amount: \$332,000
MORTGAGEIT INC

Re: MORTGAGEIT INC Principal Reduction Notice

/850863675435/

Contact us today at 480-455-5000 regarding your existing mortgage. Our records indicate that you may be eligible for a principal reduction on your existing mortgage loan. This is NOT a loan modification or refinance offer and your credit is NOT a qualifying factor.

This offer is good until 10/14/2010 and is subject to certain conditions. No other notices will be sent and no representative will call you. Call 480-455-5000.

A principal reduction consultant is waiting to assist you. This program is being offered only to homeowners that owe more than the current market value of their property. When you call, please have a recent mortgage statement available that indicates your current mortgage balance. We will provide an estimate of market value at the time of the call.

We have searched existing records to make you this comparison offer as it relates to your existing loan.

Call 480-455-5000 for your free phone consultation

Statewide Toll Free: Call 1-866-526-0164

Offer ID: PR4-7444

Information was obtained thru public records.

PRG 0044