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BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE

STATE OF IDAHO

STATE OF IDAHO, DEPARTMENT OF )	
FINANCE, CONSUMER FINANCE )	Docket No. 2009-9-11
BUREAU, )	
Complainant, )	HEARING OFFICER'S FINDINGS
-vs- )	OF FACT, CONCLUSIONS OF LAW
FREEDOM DEBT RELIEF, LLC., )	AND PRELIMINARY ORDER
Applicant. )	

This matter came on for hearing before Jean R. Uranga, the designated Hearing Officer, on December 17, 2009. The State of Idaho, Department of Finance, appeared by and through its Deputy Attorney General, Joseph B. Jones, and Freedom Debt Relief, LLC., appeared by and through its attorney, Kenneth Howell. Both parties submitted testimony and documentary evidence. Following the close of the hearing, a briefing schedule was established. The final Reply Brief was received by fax February 25, 2010.

Hearing was held on the request for hearing filed by Freedom Debt Relief from the Order Denying Application for a Debt/Credit Counselor License issued by the Director of the Idaho Department of Finance on June 17, 2009.

In its Memorandum and Closing Argument, Freedom Debt Relief objected to being characterized as a "Respondent", rather than as an "Applicant". The Department of Finance did not object to changing the designation of Freedom Debt Relief, LLC., to "Applicant". As a result, that change has been made in the caption.

### FINDINGS OF FACT

1. Freedom Debt Relief, LLC., hereinafter referred to as FDR, is an LLC registered in the State of Delaware. FDR and its multiple business entities and affiliates were started in 2002 by Andrew Houser and Bradford Stroh. The primary purpose of the business is to provide debt counseling and debt payment services for consumers for compensation. FDR first made application to the Idaho Department of Finance on January 8, 2009, for a Debt/Credit Counselor License.

2. On November 14, 2007, the Rhode Island Department of Business Regulation issued an Order to Cease and Desist Unlicensed Debt Management Plan Activities against Freedom Financial Network, LLC., a/k/a Freedom Debt Relief. (Exhibit F.) The Director of the Rhode Island Department of Business Regulation found that FDR was a business located in San Mateo, California, and was improperly conducting a debt management business in Rhode Island without a required license. The Order required FDR to immediately cease and desist from the business of providing or servicing debt management plans for Rhode Island residents. The Order also required FDR to provide accountings to the Department of Business Regulation,

transfer all existing customers to lawfully licensed plans and to refund all fees. The Order further included a Notice of Intention to Impose Administrative Assessments in the amount of \$1,000 for each violation of Rhode Island law. FDR was granted the right to request a hearing. The Order was sent to Brad Stroh.

3. At the evidentiary hearing in Idaho, FDR admitted Exhibit 5, a Consent Order signed by Andrew Housser and Bradford Stroh as Founders and Co-CEOs of FDR with the Rhode Island Department of Business Regulation dated July 16, 2009. Paragraph 3 of Exhibit 5 indicates FDR requested a hearing on the November 1997 Order on December 14, 2007. In the Consent Order, FDR admitted it had provided services to thirty-eight residents of Rhode Island without a license. Rhode Island agreed to issue a Debt Management Services license to FDR subject to FDR's compliance with the Consent Order. As part of the Consent Order, FDR was required to refund all funds received from consumers in the amount of \$38,470.66 and was also required to pay an administrative assessment of \$39,085. Interestingly, the Certificate of Service shows that counsel representing FDR on the those Rhode Island proceedings was Robby Birnbaum, with the law firm of Greenspoon Marder, P.A. This is the same attorney and law firm which submitted the January 8, 2009, Idaho application on behalf of FDR.

4. By Order dated May 29, 2008, the State of California Department of Corporations issued a Desist and Refrain Order against Freedom Financial Network, LLC; Freedom Debt Relief, Inc.; Freedom Debt Relief, LLC; Freedom Debt Relief; Alivio Holdings,

LLC.; and others including Andrew Housser and Bradford Stroh. (Exhibit G.) That Desist and Refrain Order states that, in 2002, Andrew Housser and Bradford Stroh founded Freedom Financial Network, LLC., a Delaware limited liability company. That Order notes that Freedom Financial Network has its headquarters in San Mateo, California, and operates under multiple business names and entities. The Order alleges multiple unfair and misleading business practices by FDR. Paragraph 32 of the Order noted that FDR and its affiliated entities and Mr. Housser and Mr. Stroh are in violation of the laws of the California Financial Code governing proraters, bill payers, finance lenders, and brokers. The Order notes FDR's customers are solicited on the Internet, in addition to advertising through print and other media. Page 3, Paragraph 9, of that Desist and Refrain Order notes that the Better Business Bureau has processed at least 110 consumer complaints against FDR.

5. Page 8, Paragraph 31, of Exhibit G, noted FDR had been disciplined in Rhode Island for unlicensed practice. The California Corporations Commissioner concluded that FDR and its affiliated entities were unlawfully engaging in business as a bill payer or prorater without a California license and were overcharging consumers in violation of California law. The various entities were ordered to cease and desist conducting business in California.

6. In addition, on October 30, 2008, in California, a Complaint for Injunction, Civil Penalties and Ancillary Relief was filed against Freedom Debt Relief, LLC., and multiple affiliated entities, including Andrew Housser and Brad Stroh. (Exhibit H.)

That lawsuit alleges multiple violations of California law, including unlawful business activities and consumer complaints. The Complaint further alleges that FDR engaged in untrue or misleading statements and omissions of material facts and unfair business competition.

7. During his testimony, Robert Linderman, house counsel for FDR, testified that California lawsuit had been settled, but no final decision had been rendered. Attached to FDR's Memorandum and Closing Argument was a copy of the consent judgment entered in that action dated December 22, 2009. While the Department of Finance objected to inclusion of a post hearing exhibit, the Hearing Officer finds the document should be considered, even though it was clearly not available when the Idaho Order was issued. The Consent Judgment filed December 22, 2009, includes admissions by FDR. Claims against Andrew Housser and Brad Stroh were dismissed, but judgment was entered against FDR and its officers, directors and partners. While disputing the allegations of the Complaint, FDR agreed to come into full compliance with California law. FDR agreed to pay the San Mateo District County Attorney's Office \$90,000 for alleged violations of California law and \$160,000 in costs. FDR also agreed to pay the California Department of Corporations \$200,000. Further, FDR agreed to implement a refund program funded by \$500,000 for refunds to consumers who requested refunds. A detailed procedure was set forth to handle the refund procedure.

8. On January 8, 2009, the Idaho Department of Finance received a license application from Freedom Debt Relief, LLC., for licensure as a Debt/Credit Counselor. Parts of the application were admitted as Exhibits A, B and C. The application materials were prepared and submitted to the Department of Finance by Robby Birnbaum, an attorney with the law firm of Greenspoon Marder. The application indicated the main business address for FDR was located in San Mateo, California. Page 1 of Exhibit A included a notarized signature of Andrew Housser, signed on December 10, 2008. The execution form states:

**EXECUTION:** The undersigned, being first duly sworn, deposes and says that he/she has executed this form on behalf of, and with the authority of, said applicant and agrees to and represents the following:

- (1) That the information and statements contained herein, including exhibits attached hereto, and other information filed herewith, all of which are made a part hereof, are current, true and complete and are made under the penalty of perjury and/or un-sworn falsification to authorities or similar provisions as provided by law;
- (2) To the extent any information previously submitted is not amended such information is currently accurate and complete;
- (3) That the Idaho Department of Finance may conduct any investigation into the background of the applicant and any related individuals or entities, in accordance with state law and federal law for purposes of making determination on the application;
- (4) To keep the information contained in this form current and to file accurate supplementary information on a timely basis; and

- (5) To comply with the provisions of law including the maintenance of accurate books and records pertaining to the conduct of business for which the applicant is applying.

Exhibit A, the second page, lists Andrew Housser as the Manager and Diane Sanders as Customer Service Manager. Paragraph 3 of Exhibit A required FDR to disclose licenses in other states. With respect to Colorado, FDR indicated it had a pending application. With respect to Delaware, Maine and Rhode Island, FDR noted it was newly applying. With respect to Utah, FDR indicated it was already licensed or registered. There was no notation of any application or matters pending in California.

9. With respect to Section 8, FDR listed Andrew Housser, Marcia Hartstein, and Kevin Gallegos as responsible individuals in charge who will supervise the business activities. The application required FDR to complete Schedule A with respect to direct owners and Schedule B with respect to indirect owners. Section 8 further states: "Amendments to schedules A and B must be provided on Schedule C as changes occur after initial submission."

10. In Section 9, of Exhibit A, the applicant is required to answer various questions. If a "yes" answer is noted, the applicant is required to:

. . . provide complete details of all events or *proceedings* in an attachment, including as applicable; name and location of court, docket or case number, and status and summary of event or *proceeding*; copies of applicable charge(s), order(s), and/or consent agreement(s).

Section 9 further states: "Remember to file updates of these disclosures as needed." (Emphasis in original.) Section 9 is broken into Criminal Disclosure; Regulatory Action Disclosure; Civil Judicial Disclosure; and Financial Disclosure. With respect to Regulatory Action Disclosure, FDR checked "yes" on Sections (C) (2) and (E), but provided absolutely no backup documentation or details or copies of applicable charges and orders as required by the application. FDR answered "yes" to the question that it had been found by state or regulatory agency to have been involved in a violation of state laws and that it was the subject of a regulatory proceeding that could result in a "yes" answer. However, FDR answered "no" to questions asking whether FDR had been found by any state or regulatory agency to have made a false statement or omission or had been dishonest, unfair, or unethical. FDR also answered "no" to the question of whether it had its authorization to do business denied, suspended, revoked or restricted. FDR denied that an Order had ever been entered against it for debit/credit counseling or financial services or related activity. Finally, FDR denied that it had ever been prevented by any state or regulatory agency from engaging in debit/credit counseling or financial service related business or restricted its activities. All four of these "no" answers were material misstatements.

11. With respect to Civil Judicial Disclosures, FDR did not answer sections (F) (1) (a) and (c) and (F) (2). Question (F) (2) specifically required disclosure of whether FDR or a controlled



affiliate was named in any pending civil action that could result in a "yes" answer to any of the remaining questions.

12. With respect to Andrew Housser, a Form CA2 was filed with the Department of Finance on January 8, 2009. (Exhibit B.) That document was signed December 10, 2008, and is sworn under oath by Andrew Housser. Section 2 states:

**Individual's Acknowledgment & Consent:**

I swear or affirm that I have executed this form before a Notary Public, of my free will and:

- (A) I have read and understand the terms and instructions on this form;
- (B) My answers (including attachments) are true and complete to the best of my knowledge;
- (C) I understand that I am subject to administrative, civil or criminal penalties if I give false or misleading answers;
- (D) I authorize all my current and former employers, law enforcement agencies, and any other person to furnish to any jurisdiction, or any agent acting on its behalf, any information they have, including without limitation my creditworthiness, character, ability, business activities, educational background, general reputation, history of my employment and, in the case of former employers, complete reasons for my termination;
- (E) I have read and understand applicable federal and state law, and will be in compliance at all times;
- (F) I promise to keep the information contained in this form current and to file accurate supplementary information on a timely basis.

Bradford Stroh also signed the document on the third page of Exhibit B certifying that he had taken appropriate steps to verify the accuracy and completeness of the information contained in the application.

13. On the last page of Exhibit B, with respect to disclosure of Regulatory Actions, Mr. Housser answered "no" to Sections (H)(1), (3), (5) and (6) and Section (I). He failed to answer Sections (H)(2), (4) and (7) and Section (J). With respect to Civil Judicial Disclosures found in Section K, Mr. Housser answered "no" to all those questions. If "yes" answers are given, the applicant is required to provide complete details on a separate sheet.

14. In addition, on December 17, 2008, Brad Stroh signed a notarized form CA2 which included the same individual acknowledgment and consent quoted above. (Exhibit C.) Mr. Stroh's Form CA2, on the third page, was countersigned by Andrew Housser certifying that Mr. Housser had taken appropriate steps to verify the accuracy and completeness of the information contained in the application. In his application, Mr. Stroh answered "no" to all questions found in Section 8 regarding Regulatory Action Disclosures on the last page of Exhibit C and "no" to all requests for information on Civil Judicial Disclosures.

15. The application forms filed by FDR, Mr. Housser and Mr. Stroh under oath failed to disclose November 2007 Rhode Island Order and the two California actions.

16. By letter dated January 23, 2009, FDR was notified of various deficiencies in its application. (Exhibit D.) Paragraph 18 of that letter required FDR to complete CA1, Section 9 F.

17. After the application had been received by the Idaho Department of Finance, on February 3, 2009, FDR entered into a

Stipulation and Final Agency Order with respect to the State of Colorado. (Exhibit I.) The parties to that Order included FDR and multiple affiliated entities. The Stipulation and Final Agency Order was signed by Andrew Housser on February 2, 2009. The Colorado Order indicates that FDR filed an application for registration as a debt management services provider in Colorado on October 6, 2008. (Page 1, Paragraph 3.) While FDR asserted none of its violations of Colorado law were intentional or resulted in material harm to consumers, FDR agreed that all debt management agreements occurring after January 1, 2008, must comply with Colorado law and between January 1, 2008, and October 28, 2008, provided unlicensed debt management services to 550 Colorado consumers and violated multiple sections of Colorado law. (Page 2, Paragraph 8.) The Order stipulated that FDR provided debt management services to a 164 Colorado consumers without being registered. (Page 2, Paragraph 8.a.) FDR's contracts with 418 Colorado consumers executed between January 1, 2008 and August 19, 2008, failed to comply with various disclosures required by Colorado law. (Page 2, Paragraph 8.b.) FDR was required to comply with Colorado law in the future and was required to make certain refunds. FDR agreed not to contract with any additional Colorado residents without being registered. FDR also agreed to pay the Colorado Administrator \$109,500 for investigative costs and fees. Page 4 and 5, Paragraph o of Exhibit I include a statement that FDR's failure to disclose the Rhode Island Cease and Desist Order in its Colorado application was materially erroneous. FDR contended that

was not disclosed "due to an administrative oversight."

18. On March 26, 2009, the State of Idaho, Department of Finance received amendments to FDR's application, including an amended Form CA1. (Exhibit E.) The amendments were sent by a letter dated March 25, 2009, signed by Sam Davidson of FDR, and a letter dated March 26, 2009, signed by Sam Davidson. That amended application did not include copies or details of any of the regulatory actions filed or pending against FDR or related entities as required by the application. The same answers as the original application were entered with respect to Regulatory Action. With respect to Civil Judicial Disclosure, Section (F)(2) was checked "yes". Attached to Exhibit E was a "Response to Item 9(F)(2)." That document included a summary of the California lawsuit, but did not include a copy of the California lawsuit and did not disclose the Rhode Island proceedings and Order, the California Administrative Order or the Colorado Order.

19. Tom Nate testified the Department did receive a typed summary of the California civil action found on Page 9 of Paragraph E. He further testified the Department never received, in either the first or second application, information regarding the Rhode Island Order, the California administrative Order or the Colorado Order.

20. Robert Linderman, the in house counsel for FDR, was the only witness to testify on behalf of FDR. He acknowledged he did not begin working for FDR until January 1, 2009. He further testified the January, 2009 application was handled exclusively by

an outside law firm through attorney Robby Birnbaum of the law firm Greenspoon Marder. Consequently, Mr. Linderman had no personal involvement or knowledge about what documents were prepared and submitted to the Department with the initial application. Mr. Linderman offered Exhibit 1 as a document he obtained from Greenspoon Marder allegedly representative of what was submitted to the Department with the first application. In Mr. Nate's Post Hearing Affidavit, he stated under oath the Department did not receive any of the divider sheets included in Exhibit 1. Most significantly, Mr. Nate testified the Department did not receive copies of the November 14, 2007, Rhode Island Order or the State of California Administrative Desist and Refrain Order dated May 29, 2008 found at Page 16 through 31 of Exhibit 1. The Hearing Officer finds Mr. Nate's testimony on this point is more credible and finds copies of those Orders were not submitted to the Department.

21. With respect to the amended application filed in March 2009, admitted by Mr. Linderman as Exhibit 2, Page 191 includes a summary of the California civil action. Exhibit 2 was submitted to the Department of Finance directly from FDR through correspondence sent by Sam Davidson, Customer Service Manager. Mr. Linderman also offered Exhibit 4, which is a letter he sent to Michael Larsen after the Director denied FDR's application. (Exhibit 4.) Attached to that letter is a two page summary which Mr. Linderman stated was a document he prepared which was allegedly filed with the March 2009 application. That two page document includes a summary of the California civil action and a summary of the Rhode

Island action. Mr. Nate testified that two page document was not received by the Department of Finance. The Hearing Officer again finds Mr. Nate's testimony more credible on that point. The last page of Exhibit 2 is in fact identical to the ninth page of Exhibit E which the Department admits receiving with the March amended application. A comparison of the last two pages of Mr. Linderman's June 30, 2009, letter reveals that the words "California" were added to that document, so it is not in fact identical to what was submitted to the Department. In addition, Mr. Nate's post hearing affidavit compared Exhibit 2 to the documents the Department received and found multiple other changes and additions to the documents included in Exhibit 2 which were different from documents submitted to the Department.

22. Based upon the foregoing, the Hearing Officer finds that at the time FDR's initial application was received January 8, 2009, there were three outstanding legal orders and proceedings against FDR which FDR failed to disclose. Those include the Rhode Island Order entered November 14, 2007; the California Administrative Order dated May 29, 2008; and the California Civil Action filed October 30, 2008. In addition, the Rhode Island and California administrative Order and the Colorado Order entered February 3, 2009, were not disclosed in the amended application filed March 26, 2009. The Hearing Officer further finds that FDR's failure to disclose these Orders and proceedings was intentional and willful and constitute material misstatements. The attorney involved in negotiating the Rhode Island Consent Order was the same attorney

who prepared the first application. In addition, the co-CEO's of FDR, Andrew Housser and Bradford Stroh, were both personally named in the California actions and actively participated in resolution of the Rhode Island and the Colorado proceedings. The evidence establishes Mr. Housser and Mr. Stroh and their counsel were well aware of these actions and failed to disclose them in the applications which were sworn under oath. Their failure to disclose these regulatory and civil actions is evidence of dishonesty.

23. On June 17, 2009, Gavin Gee, Director of the State of Idaho, Department of Finance, issued an Order Denying Application For A Debt/Credit Counselor License. That Order noted the applications which have been filed by FDR and FDR's failure to disclose the actions in Rhode Island, the California Administrative Order and the Colorado Order. The Director concluded that FDR's application was not complete and FDR had failed to comply with the requirements of Idaho Code §26-2224. The Director further concluded that FDR's failure to disclose regulatory actions taken against it and orders entered against it in other states constituted material misstatements in the application in violation of Idaho Code §26-2227. Finally, the Director concluded that FDR's conduct and business practices as evidenced by the foregoing facts demonstrate a lack of fitness to engage in business activities authorized for a licensee in violation of Idaho Code §26-2227(e). FDR's application for a debt/credit counselor license was denied and FDR was offered the opportunity for hearing.

## CONCLUSIONS OF LAW

24. Idaho Code §26-2227(5) does allow an Applicant for a Debt/Credit Counselor notice and an opportunity to be heard on denial of an application with procedures governed by the Idaho Administrative Procedures Act.

25. Idaho Code §26-2224 requires applicants to file an application using forms prescribed by the Director of the Department of Finance. In addition to specific information, Subsection 13 allows the Director to require such other information as he chooses. That subsection further requires that the application be executed and verified on oath of the Applicant. That statutory requirement further states: "Information required at the time of application, except for advertisements and solicitations, shall be updated and filed with the director as necessary to keep the information current." FDR failed to include all information required by the application on regulatory agency actions and civil actions and failed to keep its application information updated as required by both the language of the application and Idaho Code §26-2224(13). The Hearing Officer agrees with the Director's conclusion that FDR's application was not completed and FDR failed to comply with the requirements of Idaho Code §26-2224.

26. Idaho Code §26-2227(f) allows the Director to deny an application if the applicant "has made a material misstatement in the application for such license." As discussed in the Findings of Fact, FDR did include material misstatement in the application for



application for an Idaho license.

27. Idaho Code §26-2227(1)(1) allows the Director to deny a license when an applicant demonstrates a lack of fitness to engage in business activities authorized for a licensee under this act. A debt counselor or credit counselor is engaged in the business of receiving money from debtors to be applied to payment of outstanding debts. Idaho Code §26-2222(9) and Idaho Code §26-2223(7). Such activities require significant fiduciary duties to debtors requiring a high level of integrity and trustworthiness. The fact that FDR was sanctioned through Cease and Desist Orders and injunctive actions for practicing without a license and for multiple violations of similar state statutes does establish grounds to deny a license based upon a lack of fitness to engage in business activities authorized. Further, FDR's pattern and practice of material misrepresentations and failure to disclose required information in its Idaho application and applications in other states further supports a finding of unfitness.

28. In its Closing Brief, FDR argues the application should not be denied for failure to disclose because the Department did not ask FDR to present further information. FDR argues its application should not be denied "on the basis of a incorrect check mark." (Memorandum and Closing Argument of Freedom Debt Relief, LLC., -8) As noted in the Finding of Fact, applications in Idaho are submitted under oath certifying the truthfulness of the information and requiring that updated and amended information be provided as needed. When material misstatements are included in

applications, and required documents are not provided, it is not the Department's responsibility to make sure an applicant complies with the legal requirements of full and honest disclosures.

29. Contrary to FDR's argument in its Brief, the Hearing Officer finds and concludes that FDR did not truthfully and plainly disclose the existence of multiple state regulatory actions in either its initial application or its amended application. Merely answering "yes" to one question without providing the required additional information and copies of the applicable orders as required by the application is inadequate.

30. Further, FDR argues that, since other states have granted it a license, the State of Idaho should not deny its application. It is within the discretion of the Director of the Idaho Department of Finance to determine whether a application should be denied without regard to whether other states have issued licenses.

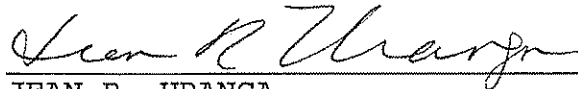
31. FDR argues that determining that FDR is not fit to practice cannot be based on Findings of Fact and unproven allegations from sister states. To the contrary, state administrative agencies are entitled to rely upon and give consideration to orders of other states, particularly when the applicant or principals of the applicant admit violations which reflect on their fitness in signed documents and stipulate to significant monetary sanctions.

32. Pursuant to Idaho Code §26-2227, the Director has grounds to deny FDR's application.

**PRELIMINARY ORDER**

Based upon the foregoing, IT IS HEREBY ORDERED That the denial of the application of Freedom Debt Relief by the Department of Finance for a Debt/Credit Counselor License is UPHeld and AFFIRMED.

DATED This 8th day of April, 2010.



JEAN R. URANGA  
Hearing Officer

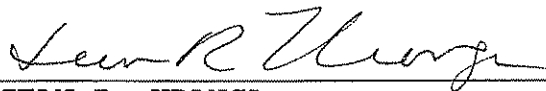
CERTIFICATE OF MAILING

I HEREBY CERTIFY That on this 8th day of April, 2010, I served true and correct copies of the foregoing HEARING OFFICER'S FINDINGS OF FACT, CONCLUSIONS OF LAW AND PRELIMINARY ORDER by depositing copies thereof in the United States mail, postage prepaid, in envelopes addressed to:

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