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8

9
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF SACRAMENTO

11 In The Matter Of:

Case No. 06CS01309

12 Nationwide Asset Services, Inc., a.k.a.
13 Nationwide Asset Services and Universal
Nationwide L.L.C., d.b.a. Universal Debt
14 Reduction,

PETITION FOR WRIT OF
ADMINISTRATIVE MANDAMUS
[CCP 1094.5]

15 Petitioners,

[Filed Concurrently with Request for Judicial
Notice]

16 vs.

17 The California Corporations Commissioner,

Date: October 16, 2006
Time: 8:30 a.m.
Dept.: Not Yet Assigned

18 Respondent.
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TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page

I. INTRODUCTION AND SUMMARY OF ARGUMENT1

II. PARTIES3

III. VENUE AND JURISDICTION4

IV. EXHAUSTION OF ADMINISTRATIVE REMEDIES4

V. ABSENCE OF OTHER ADEQUATE REMEDY4

VI. APPLICABLE STANDARD OF REVIEW4

VII. PROPRIETY AND TIMELINESS OF PETITION6

VIII. RELEVANT FACTUAL BACKGROUND6

IX. ARGUMENT12

 A. Grounds For The Writ12

 B. This Writ Must Be Granted Because The Commissioner
 Proceeded In Excess Of Its Jurisdiction13

TABLE OF AUTHORITIES

Page(s)

Cases

1
2
3
4 *Alliance for a Better Downtown Millbrae v. Wade*
5 108 Cal. App. 4th 123, 129 (2003) 5
6
7 *Bixby v. Pierno*
8 4 Cal. 3d 130, 143 (1971) 5, 6
9
10 *Cal. Ins. Guarantee Ass'n v. Workers Comp. Appeals Bd.*
11 128 Cal. App. 4th 569 (2005) 15
12
13 *County of Alameda v. Bd. of Ret.*
14 46 Cal. 3d 902 (1988) 6
15
16 *Dole Bakersfield, Inc. v. Workers' Comp. Appeals Bd.*
17 64 Cal. App. 4th 1273 (1998) 17
18
19 *Duncan v. Dep't of Personnel Admin.*
20 77 Cal. App. 4th 1166 (2000) 4
21
22 *Frink v. Prod*
23 31 Cal. 3d 166 (1982) 5, 12
24
25 *Gallo v. Acuna*
26 14 Cal. 4th 1090 (1997) 19
27
28 *In Re Cindy B.*
192 Cal. App. 3d. 771 (1987) 17
In re Elijah S.
125 Cal. App. 4th 1532 (2005) 16
In re Michael D.
116 Cal. App. 3d 237 (1981) 17
Kerollis v. Dep't of Motor Vehicles
75 Cal. App. 4th 1299 (1999) 13
MHC Operating Ltd. P'ship v. City of San Jose
106 Cal. App. 4th 204, 217 (2003) 5
People v. Pena
74 Cal. App. 4th 1078 (1999) 13
Ruiz v. Sylva
102 Cal. App. 4th 199 (2002) 13
Smith v. Goguen
(1974) 415 U.S. 566 19
Sounhein v. City of San Dimas

1 **TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:**

2 **PLEASE TAKE NOTICE** that on October 16, 2006, at 8:30 a.m., or as soon thereafter as
3 the matter may be heard, in the above-captioned Court, located at 720 9th Street, Sacramento, CA
4 95814, Petitioners Nationwide Asset Services, Inc., Universal Nationwide LLC and Universal
5 Debt Reduction (collectively, the "NAS Petitioners") will, and hereby do, move for a writ of
6 administrative mandamus under California Code of Civil Procedure § 1094.5(b) directing the
7 California Commissioner of Corporations ("Commissioner") to vacate its decision dated August 3,
8 2006, effective on August 4, 2006, in which it adopts the Administrative Law Judge's Proposed
9 Decision dated April 28, 2006 ("Decision") (collectively, the "Writ").

10 The Writ is made on the grounds that (a) the Commissioner proceeded without or in excess
11 of its jurisdiction, (b) the NAS Petitioners were deprived of a fair trial and (c) there was a
12 prejudicial abuse of discretion.

13 This Writ is based on this Notice, the memorandum of points and authorities attached
14 hereto, all pleadings, papers, and records on file with the OAH in this action; and all such other
15 argument and evidence as may be presented to this Court in connection with this Writ.

16 Dated: September 1, 2006

LOEB & LOEB LLP
MICHAEL L. MALLOW
MICHELLE M. SHARONI

19 By: _____

20 **Michael L. Mallow**
21 **Attorneys for Respondents**
22 **Nationwide Asset Services, Inc., Universal**
23 **Nationwide, LLC and Universal Debt**
24 **Reduction**

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25
26
27
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Page(s)

47 Cal. App. 4th 1181 (1996) 13

Statutes

Cal. Code Civ. P. § 1094.5(c) 5

Cal. Code Civ. P. § 1858 15

Cal. Gov't Code § 11521 6

Cal. Gov't Code § 11523 4, 6

California Code of Civil Procedure Section 1094.5 5, 6, 12

California Code of Civil Procedure Section 1094.5(b) 1, 5, 12, 13

California Financial Code § 12002.1 14

California Financial Code § 12200 13, 14

California Financial Code §§ 12000 2

1 Petitioners Nationwide Asset Services, Inc., Universal Nationwide LLC and Universal
2 Debt Reduction (collectively, the "Petitioners") petition this Court for a writ of administrative
3 mandamus under California Code of Civil Procedure § 1094.5(b) directing the California
4 Commissioner of Corporations ("Commissioner") to vacate its decision dated August 3, 2006,
5 effective on August 4, 2006, in which it adopts the Administrative Law Judge's Proposed
6 Decision dated April 28, 2006, issued on May 12, 2006 ("Decision") (collectively, the "Writ").
7 (See Decision, attached as Exhibit "142" to the NAS Petitioners' Request for Judicial Notice filed
8 concurrently herewith ("Judicial Notice").)

9 **I. INTRODUCTION AND SUMMARY OF ARGUMENT**

10 This case is a classic example of the due process abuse that can occur when an enforcing
11 agency is the same agency that decides whether its enforcement activities are proper and justified.

12 In this case, the Department of Corporations ("DOC")—which has been targeting the debt
13 negotiation industry generally—set its sites on Petitioners based on the assumption that Petitioners
14 were receiving money from their clients; holding the money while a clients' debt was being
15 negotiated; and then distributing the money to creditors when a settlement was consummated.
16 Had these facts been accurate, the DOC may have been justified in pursuing this action against
17 Petitioners. But the facts are not accurate. As the DOC learned after a four-day evidentiary
18 hearing, Petitioners do *not* receive money from their clients for the purposes of distributing such
19 money to creditors; they do *not* hold money for their clients while debt is negotiated; and
20 Petitioners do *not* distribute money to creditors. These were the very findings made by the
21 administrative law judge in this case. But, instead of admitting that its initial understanding of
22 Petitioners' business was wrong and dropping its case, the Commissioner instead changed the law
23 to suit its purpose—to stop Petitioners from engaging in a perfectly lawful debt negotiation
24 business in California.

25 This Writ challenges the Commissioner's decision to adopt the April 28, 2006 Proposed
26 Decision rendered by Administrative Law Judge Jaime Rene Roman ("Decision"), which affirms
27 the Desist & Refrain Order issued by the Commissioner on December 5, 2005 prohibiting
28 Petitioners from operating in California as billpayers or proraters unless or until they are licensed

1 or establish they are exempt ("D&R Order"). (See Desist & Refrain Order, ¶ 15, attached as
2 Exhibit "1" to Judicial Notice.) The Petitioners seek judicial relief because the Decision is
3 inconsistent with the factual findings contained therein and improperly extends the scope of
4 California Financial Code §§ 12000, et seq. ("Prorater Statutes") beyond the Prorater Statutes'
5 plain meaning. Based on the factual findings in the Decision and a plain reading of the Prorater
6 Statutes, the only logical conclusion that can be reached in this case is that Petitioners are not
7 proraters and that the D&R Order was improperly issued.

8 To prevail in its case against Petitioners, the Commissioner must prove that Petitioners
9 receive money or evidences thereof for the purpose of distributing the money or evidences thereof
10 among creditors in payment or partial payment of the obligations of the debtor. In brining its
11 enforcement action, the Commissioner believed Petitioners, either directly or indirectly through
12 Global Client Solutions ("GCS"), an alleged affiliated entity, received client funds, negotiated
13 debt and distributed client funds to creditors. But the evidence actually established—and the ALJ
14 found—that Petitioners did not handle client funds at all. Rather, GCS, who acted as an agent of
15 Rocky Mountain Bank and Trust ("RMBT") not Petitioners, initiated withdrawals from a client's
16 primary account and deposited such funds into a client's restricted account at RMBT. GCS and
17 RMBT were directly and contractual responsible to clients to hold client money. If a client
18 requested return of the money, GCS and RMBT were contractual obligated to return the money. If
19 GCS was notified that a settlement had been negotiated, GCS, not Petitioners, transferred funds to
20 creditors. The closest Petitioners came to client money was there ability to "see" client account
21 balances at RMBT and to initiate negotiations based on the balances in the client's RMBT
22 account.

23 Based on the plain meaning of the Prorater Statutes, the only logical conclusion that can
24 be reached in this case is that Petitioners are not proraters because they do not receive or distribute
25 money. But in this case, the Commissioner illogically decided that Petitioners were proraters, not
26 because they received or distributed money, but because they could see client bank statements at
27 RMBT and thus "received" evidences of money. But "receiving evidences of money" cannot be
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1 the same as receiving evidence that money is in a client's account, which is what the
2 Commissioner decided in this case.

3 First, neither the Commissioner nor the ALJ cited to any authority supporting this novel
4 position; and Petitioner has not found any such authority. Second, the very language of the
5 prorater statute undermines the Commissioner's interpretation. Information about an account
6 balance cannot constitute "evidence of money" as contemplated by the statute because Petitioner
7 cannot distribute information about a client's bank account balance to a creditor in payment or
8 partial payment of a debt. As the ALJ acknowledged in this case "evidences of money" is not
9 defined but it appears the phrase refers to a monetary equivalent, like a check, money order, etc.
10 What is clear, however, is that "evidences of money" does not include seeing or receiving a bank
11 statement, which is the basis of the Commissioner's decision in this case.

12 Simply put, the Commissioner exceeded his authority and had no factual basis to conclude
13 that Petitioners were violating the California's Prorater Statutes. The Commissioner cannot
14 change or ignore the language of a statute to justify an improvidently initiated action. The
15 Commissioner does not have authority to ignore facts that undermine its desired conclusion. The
16 Commissioner cannot put aside basic due process concerns by initiating an action without proper
17 investigation and without a proper factual basis. The Commissioner's abuses in this case are
18 extraordinary and must be remedied through the extraordinary relief Petitioners request in this writ
19 of mandamus. Absent such relief, Petitioners' lawful and successful business, and the hundreds of
20 California consumers Petitioner serves, will be destroyed.

21 **II. PARTIES**

22 Petitioner Nationwide Asset Services, Inc. is a corporation organized and existing under
23 the laws of the State of Nevada. During the time period under review by this Court, its
24 headquarters were located at 4229 Northgate Blvd., Sacramento, California. Petitioner
25 Nationwide Asset Services, Inc. is engaged in the debt settlement/negotiation business. Petitioner
26 Universal Nationwide, LLC is a limited liability company organized and existing under the laws
27 of the State of Nevada. During the period in question, its headquarters were located at 4229
28 Northgate Blvd., Sacramento, California. Petitioner Universal Nationwide LLC is engaged in the

1 debt settlement/negotiation business. Petitioner Universal Debt Reduction, LLC is a limited
2 liability company organized and existing under the laws of the State of Arizona. During the period
3 in question, its headquarters were located at 4229 Northgate Blvd., Sacramento, California.
4 Petitioner Universal Debt Reduction is engaged in the debt settlement/negotiation business.

5 The NAS Petitioners have at all relevant times been named as respondents in the
6 administrative proceedings and are named in the Decision, which is the subject of this Writ.

7 **III. VENUE AND JURISDICTION**

8 Venue is proper in the County of Sacramento because the Commissioner's office is in
9 Sacramento, California and all actions against the NAS Petitioners arose in Sacramento,
10 California. Also, the Decision was rendered in Sacramento, California.

11 Jurisdiction in the Superior Court is proper as this action is one for Mandamus and
12 equitable relief.

13 **IV. EXHAUSTION OF ADMINISTRATIVE REMEDIES**

14 The NAS Petitioners have exhausted their administrative remedies because the Decision is
15 a final decision on the merits, which the Commissioner deemed effective August 4, 2006. The
16 NAS Petitioners are not required to seek reconsideration as a prerequisite to seeking judicial
17 review. Cal. Gov't Code § 11523.

18 **V. ABSENCE OF OTHER ADEQUATE REMEDY**

19 The NAS Petitioners do not have any plain, speedy or adequate remedy at law other than
20 this Writ.

21 **VI. APPLICABLE STANDARD OF REVIEW**

22 A trial court's standard of judicial review in administrative mandamus cases depends on
23 the nature of the decision being challenged. Determinations of ultimate questions, such as whether
24 the agency's decision was unlawful or procedurally unfair, and evaluations of an administrative
25 agency's interpretation and application of a statute, are questions of law. *See Duncan v. Dep't of*
26 *Personnel Admin.*, 77 Cal. App. 4th 1166, 1174 (2000). Questions of law are always reviewed de
27 novo. *See id.* This standard requires the reviewing court to exercise its own independent
28

1 judgment as to questions of law. *Alliance for a Better Downtown Millbrae v. Wade*, 108 Cal. App.
2 4th 123, 129 (2003).

3 A different standard applies when the trial court is evaluating the evidentiary basis for an
4 administrative decision, as opposed to evaluating questions of law. California Code of Civil
5 Procedure ("C.C.P.") Section 1094.5 provides the basic framework in these circumstances.
6 Section 1094.5 does not, however, establish a single standard for judicial review. *See* Cal. Code
7 Civ. P. § 1094.5(c). Instead, the standard of review depends on the nature of the right affected by
8 the administrative decision. *See MHC Operating Ltd. P'ship v. City of San Jose*, 106 Cal. App.
9 4th 204, 217 (2003). "Where it is claimed that the findings are not supported by the evidence, in
10 cases in which the court is authorized by law to exercise its independent judgment on the
11 evidence, abuse of discretion is established if the court determines that the findings are not
12 supported by the weight of the evidence" ("independent judgment" standard of review). Cal. Code
13 Civ. P. § 1094.5(c). "In all other cases, abuse of discretion is established if the court determines
14 that the findings are not supported by substantial evidence in the light of the whole record"
15 ("substantial evidence" standard of review). *Id.*

16 This Writ is based on the following three grounds: (a) the Commissioner proceeded
17 without or in excess of its jurisdiction; (b) the NAS Petitioners were deprived of a fair trial; and
18 (c) there was a prejudicial abuse of discretion. *See id.* § 1094.5(b); *see also Frink v. Prod*, 31 Cal.
19 3d 166, 172 (1982). All of these grounds are pure questions of law. As such, the standard of
20 review applicable here is "de novo."

21 Assuming *arguendo* that this Court characterizes the issues on appeal as an evaluation of
22 the evidentiary basis of the Decision rather than questions of law, this Court should apply the
23 "independent judgment" standard of review, which is very similar to the de novo standard and
24 often referred to as the "limited trial de novo" standard. *See, e.g., Bixby v. Pierno*, 4 Cal. 3d 130,
25 143 (1971) (seminal California case on point). In cases, such as here, where vested¹ fundamental

26 _____
27 ¹ The term "vested" has been defined as a right that is "already possessed by the
28 individual." *Id.* at 146 (citation omitted).

1 rights are substantially affected by the administrative decision, the trial court must review the case
2 under the independent judgment test. *Id.* Courts have interpreted fundamental vested rights to
3 include, *inter alia*, individual rights guaranteed under the due process and equal protection clauses
4 of the state and federal Constitutions. *County of Alameda v. Bd. of Ret.*, 46 Cal. 3d 902, 907
5 (1988).

6 All three grounds upon which the NAS Petitioners seek this Writ revolve around the NAS
7 Petitioners' due process rights to notice of the current DOC's interpretation of the Prorater
8 Statutes. Due process rights are, without question, a "fundamental right." Therefore, this Court
9 should apply the "independent judgment" review standard. In applying this standard, this Court
10 must not only examine the administrative record for errors of law but also exercise its independent
11 judgment upon the evidence disclosed. *Bixby*, 4 Cal. 3d at 143. An application of this standard
12 will undoubtedly result in the granting of this Writ.

13 If, however, this Court characterizes the rights at issue as non-fundamental, then it should
14 apply the "substantial evidence" review standard. *Id.* at 144. In applying this standard, this Court
15 must still review the administrative record to determine whether or not the findings are supported
16 by substantial evidence and whether the agency committed any errors of law, but the Court is not
17 required to look beyond that record. *Id.* An application of even this standard will result in the
18 granting of this Writ, particularly since the Commissioner did not proceed in the manner required
19 by law and the Decision is not supported by the findings.

20 VII. PROPRIETY AND TIMELINESS OF PETITION

21 This Writ is authorized by C.C.P. § 1094.5. This Writ is timely, as it is filed within 30
22 days after the last date on which reconsideration can be ordered. *See* Cal. Gov't Code §§ 11521,
23 11523.

24 VIII. RELEVANT FACTUAL BACKGROUND

25 A. Overview of Petitioners' Business Operation

26 Since November 2003, Petitioners' debt settlement program has operated as follows:
27 Consumers who are overwhelmed with credit card debt contact Universal directly or through an
28 independent correspondent to sign up for the debt settlement program. (*See* Anderson Testimony,

1 attached as Exhibit "97" to the Judicial Notice, at 151:21-152:9; *see also* Webb Testimony,
2 attached as Exhibit "94" to the Judicial Notice, at 12:1-10.) Consumers then receive information
3 on the debt settlement program via telephone conversations and a "client enrollment packet" sent
4 to all consumers who wish to join the program. (*Id.*; *see also* Exhibit K to Trial Transcript,
5 attached as Exhibit "144" to Judicial Notice.) The client packet includes a description of the
6 program; data sheets on which consumers are to provide or verify their statistics such as income,
7 expenses, and debt figures; multiple disclosures; a letter of introduction to Petitioners; and
8 relevant agreements. (*See* Exhibit 144.) NAS is the entity that actually negotiates with and
9 obtains settlements from creditors on behalf of consumers; meaning that NAS contacts creditors,
10 pursues settlement possibilities with creditors, and strategizes to obtain the lowest possible
11 settlement on each account of each consumer. (*See* Anderson Testimony, Exhibit 96, 151-181; *see*
12 *also* Exhibit 144.)

13 Prior to the commencement of negotiations, clients begin to accumulate money in their
14 special purpose account at RMBT, which clients have established pursuant to the Special Purpose
15 Account Application contained in each client enrollment packet. (*See* Anderson Testimony,
16 Exhibit 96, at 164:5-12; Merrick Testimony, Exhibit 96, at 113:3-15, 23-25; *see also* Exhibit 144;
17 Exhibit R to Trial Transcript, attached as Exhibit "145" to Judicial Notice.) Clients set up
18 accounts in their name that are separate from their home checking or savings account. The
19 purpose of forming and maintaining new, separate accounts, is to provide clients a better chance of
20 saving money, which ultimately enables them to get out of their respective financial crises.

21 Once a settlement is reached, NAS ensures that the settlement is properly papered and then
22 communicates the terms of the settlement to GCS and the client. (*See* Anderson Testimony,
23 Exhibit 96, at 167:22-168:7.) NAS informs GCS, who processes the accounts for RMBT and
24 clients. (*See id.*; Merrick Testimony, Exhibit 96, at 113:9-15.) Creditors obtain payment from
25 client's funds held at RMBT. Petitioners are paid a settlement fee from clients. (*See id.*)

26 RMBT and GCS are the entities contractually authorized by the client to administer a
27 client's account and any withdrawal or transfer of funds is handled solely by GCS as agent of
28 RMBT. (*See e.g.*, Exhibits 144, 145.)

1 Petitioners do not pay creditors. Petitioners do not distribute money or evidences thereof
2 to consumers. Petitioners do not control the client's funds held at RMBT. The funds remain the
3 client's funds until a settlement is reached. (See Anderson Testimony, Exhibit 96, at 162:22-
4 163:12, Schulz Testimony, Exhibit 96, at 34:20-35:16.) Clients have the ability at all times prior
5 to settlement to terminate their contracts and withdraw their funds from RMBT. (See McClure
6 Testimony, attached as Exhibit "95" to Judicial Notice, at 140:17-141:5; see also Exhibit 144
7 (Special Purpose Account Application), Exhibit 145 (Webb's Special Purpose Account
8 Application) (stating that "I (applicant) understand that the Account, when established pursuant to
9 this Application, will be my sole and exclusive property, that only I may authorize deposits to and
10 disbursements from the Account; and that I may close the Account at any time as provided for in
11 the Agreement [defined as the "Rocky Mountain Bank and Trust Account Agreement and
12 Disclosure Statement that accompanies this Application"].")

13 B. The DOC's Initial Contact

14 The DOC's initial interest in Petitioners began on or about July 31, 2003, when DOC
15 Examiner DiAun Burns ("Burns") sent Petitioners a letter stating that "[i]t has been brought to the
16 attention of the Department of Corporations that you are operating as a bill payer and/or prorater
17 in the State of California" without a license in violation of the Check Sellers, Bill Payers and
18 Proraters Law. (See Formal Hearing Transcript dated February 22, 2006, attached as Exhibit "94"
19 to Judicial Notice, at 153-54.) In her letter, Burns requested that Petitioners furnish to the
20 Department evidence of Petitioners' authority to conduct their business without a license. (*Id.*)

21 On August 18 and 27, 2003, Petitioners, through its then counsel, replied in writing to
22 Burns, stating that, *inter alia*, "[Petitioners do] not factually or legally receive money or evidences
23 of money . . . from the debtors. Debtor funds are placed in a separately administered trust fund.
24 . . . This avoids the scenario contemplated by the statutes wherein the prorater/billpayer controls
25 and/or commingles the debtors' funds. If the Commissioner has a different statutory
26 interpretation, then please contact me. [Petitioners] value [their] California clients and wish[] to
27 continue to serve this important market." Notwithstanding the request for further communication,
28 neither Burns nor anyone else at the DOC ever responded. (See Exhibit 94 at 154, 158.)

1 According to Burns, this silence occurred even though the DOC did not agree with Petitioners'
2 position back in August 2003. (*Id.* at 158-60.)

3 C. The Administrative Proceeding

4 After almost two and one-half years of silence, and with apparently no further
5 investigation, the DOC issued the D&R Order against Petitioners.

6 The D&R Order asserted that Petitioners "pay the bills of a consumer from the funds a
7 consumer forwarded to them for that purpose, by arranging for periodic electronic funds
8 transferred through the Automated Clearing House (ACH), whereby they initiate withdrawals
9 from a consumer's trust account(s) for payment to a consumer's creditor." (Exhibit 1, at 3:20-23.)
10 (emphasis added) Based on these allegations, the D&R Order required Petitioners, "individually,
11 in concert and/or in participation with others, to desist and refrain from engaging in the business as
12 a bill payer and prorater unless and until they are licensed or exempt." (Exhibit 1, at 4:24-5:1.)²

13 After the NAS Petitioners requested a hearing, the DOC served its Statement in Support of
14 the Commissioner's Desist and Refrain Order Issued Pursuant to Financial Code Section 12103,
15 Request for Ancillary Relief and Costs Pursuant to Financial Code Sections 12105 and 12106
16 ("First Statement"). (See First Statement, attached as Exhibit "18" to Judicial Notice.) The main
17 allegation in the First Statement was that Petitioners were receiving and distributing client funds
18 directly or through affiliates, namely GCS, in violation of the Prorater Statutes. (*Id.*)

19 On or about December 30, 2005, Petitioners filed and served their First Notice of Defense,
20 in which Petitioners objected to the DOC's request for ancillary relief as expressed in the DOC's
21 First Statement. (See NAS Respondents' Notice of Defense, attached as Exhibit "18" to Judicial
22 Notice.) In their Notice of Defense, Petitioners asserted, *inter alia*, that they were not proraters on
23 the grounds that they did not receive money or evidences thereof for the purpose of distributing
24 such money or evidences thereof to a consumer's creditors and they did not sell checks, drafts,
25 money orders or other commercial paper. (See *id.* at ¶ 2, 2.) Petitioners further asserted in their
26

27 ² At the Formal Hearing in the First Action, the DOC abandoned its claim that
28 Respondents were bill payers (See Exhibit 94, at 118, 122.)

1 Notice of Defense that they neither had any control of or management responsibility over the
2 funds received from the consumers nor did they collect consumer funds or distribute/transfer such
3 funds to creditors. (*See id.*) Petitioners asserted that they were not affiliated or operated as agents
4 of any other entity named as a respondent in this matter. (*See id.*) Finally, Petitioners objected to
5 the DOC's request for restitution or disgorgement as ancillary relief because the DOC failed to
6 allege facts, that if true, would establish that California consumers were in any way harmed by the
7 acts or practices of Petitioners for which they should have been licensed, and thus no grounds exist
8 for awarding disgorgement or damages as ancillary relief. (*See id.* at ¶ 3.)

9 On January 5, 2006 and in response to Petitioners' Notice of Defense, the DOC filed an
10 Amended Statement in Support of the Commissioner's Desist and Refrain Order Issued Pursuant
11 to Financial Code Section 12103, Request for Ancillary Relief, Penalties, and Costs Pursuant to
12 Financial Code Sections 12105 and 12106 ("First Amended Statement") (*See* DOC's First
13 Amended Statement, attached as Exhibit "46" to Judicial Notice.) The First Amended Statement,
14 actually expands the "affiliation" theory of liability to include RMBT. (*Id.*) The "affiliation"
15 theory of liability became more critical to the DOC's case because at the time the DOC filed its
16 First Amended Statement, it knew that Petitioners were defending the case on the ground that they
17 did not handle client money. (*Id.*)

18 In his February 15, 2006 Order, Administrative Law Judge, Judge Stephen J. Smith,
19 foreseeing that the DOC would use the upcoming formal hearing in front of Judge Roman
20 ("Formal Hearing") as its initial investigation of this matter, stated that the issues to be litigated at
21 the Formal Hearing were "quite limited." (*See* The [Corrected] NAS Respondents' Closing Brief
22 filed in preparation for the Formal Hearing, attached as Exhibit "100" to Judicial Notice, at 2.) He
23 added that "[t]he issues here are limited to a review of the propriety of the issuance of the Desist
24 and Refrain Order; to wit, whether there existed *on December 5, 2005, a persuasive legal and*
25 *factual basis for its issuance.* The issue is whether [Petitioners'] business practices and
26 relationships with one another are such that a license is required under the law." (*Id.*) (emphasis
27 added).

28

1 The Formal Hearing was held on February 21 through 24, 2006 before Judge Roman. By
2 the end of the first day of the Formal Hearing, Judge Roman was so frustrated with the DOC's
3 case that he expressed concern that the DOC issued its D&R Order and then conducted an
4 investigation to determine whether the D&R Order was properly issued.³ (See Exhibit 100, at 2.)
5 By the end of the fourth day of the Formal Hearing, it was clear that this is exactly what occurred.

6 Notwithstanding four days of hearing, the DOC failed to introduce any evidence
7 establishing that it had a persuasive legal and factual basis for issuing the D&R Order. (See *id.*)
8 All but one DOC witness testified that they had no contact with the DOC prior to the D&R
9 issuance. (See *id.*) The one witness, Rebecca Webb, who was not a California resident, testified
10 that she spoke with DOC's counsel but could not remember what she said prior to December 5,
11 2005 (the date in which the D&R Order was issued). (See *id.*) More incredibly, DiAun Burns, the
12 DOC examiner who was the only individual at the DOC to have direct contact with the Petitioners,
13 testified that she had no involvement in the issuance of the D&R Order. (See *id.* at 172-73.) In
14 fact, she admitted that she did not speak with DOC's counsel until *after* the DOC issued the D&R
15 Order (*id.* at 173.) Furthermore, the DOC did not present a single complaint from any California
16 consumer at the Formal Hearing. At best, the evidence at the Formal Hearing established that the
17 DOC issued the D&R based on nothing more than a brief, non-descript telephone call from a non-
18 California consumer, Rebecca Webb, who could not talk throughout the issuance of the D&R
19 Order because her jaw was wired shut. (See *id.*)

20 Despite the utter lack of evidence, on April 28, 2006, Judge Roman issued a Proposed
21 Decision finding the NAS Petitioners were "proraters" and operating without a license. (See
22 Proposed Decision, attached as Exhibit "121" to Judicial Notice.) The Proposed Decision was
23 adopted by the Commissioner, without comment, on August 3, 2006, effective August 4, 2006.
24 (See Exhibit 142.)

25

26

27 ³ In multiple status conferences, Judge Smith and the NAS Petitioners conveyed the same
28 concern.

1 D. The Commissioner's Decision

2 As discussed more fully, *infra*, the Commissioner's decision is internally inconsistent.
3 The Decision expressly finds that Petitioners do not receive client funds for the purposes of
4 distributing those funds to creditors in satisfaction of their clients' debt. The Decision also
5 expressly finds that GCS and Petitioners are *not* affiliated and that GCS is actually an agent of
6 RMBT, not Petitioners. Consequently, and as tacitly acknowledged in the Decision itself,
7 Petitioners do not fit within the express language of the Prorater Statutes. The Decision
8 nonetheless holds that Petitioners' activities fall within the definition of prorater and require
9 licensure by the Commissioner because: "once some evidence of the deposit of client funds in
10 Rocky Mountain is received, respondents commence the rendering of services;" although
11 Petitioners do not receive funds "they do receive evidence of such funds' deposits;" and "no
12 respondent . . . commences any activity for the benefit of their customers until client funds are
13 both deposited in an account and available for distribution . . ." (Exhibit 142 at 8.)

14 In short, the Decision relies entirely on the fact that because Petitioners receive
15 information that money has been deposited in a *clients' account at RMBT*, Petitioners are
16 proraters. The absurdity of this conclusion is the reason Petitioners must file this Petition.⁴

17 IX. ARGUMENT

18 A. Grounds For The Writ

19 C.C.P. § 1094.5 sets forth three independent grounds for granting a writ of administrative
20 mandamus: (a) whether the agency proceeded without or in excess of its jurisdiction; (b) whether
21 there was a fair trial; and (c) whether there was a prejudicial abuse of discretion. Cal. Code Civ.
22 P. § 1094.5(b); *see also Frink*, 31 Cal. 3d at 172. Because the Decision in this case attempts to
23 expand the Commissioner's jurisdiction by interpreting the Prorater Statutes in a manner that
24 effectively dispenses with a significant limitation in the statute; and because there is no evidence

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26 ⁴ The Decision also provides that GCS was not subject to the Prorater Statutes because
27 GCS does not negotiate debt and the Commission failed to establish a sufficient nexus between
28 GCS and Petitioners "to impute culpability or engaged in activity that constitutes prorating."
(Exhibit 142 at 9.)

1 establishing that Petitioners' activities fall within the plain meaning of the statute, all three
2 grounds independently justify vacating the Decision, and this Court can and should vacate the
3 Decision if it finds that the Decision violates any one of the enumerated grounds.

4 B. This Writ Must Be Granted Because The Commissioner Proceeded In Excess Of Its
5 Jurisdiction

6 A writ of administrative mandamus must be granted when the agency proceeded in excess
7 of its jurisdiction. Cal. Code Civ. P. § 1094.5(b). The Commissioner here proceeded in excess of
8 its jurisdiction, because the Decision improperly interprets the Prorater Statutes in a way that falls
9 outside the plain meaning of the Statutes. In effect, the Commissioner's interpretation
10 impermissibly rewrote the Prorater Statutes to cover Petitioner's business activities.

11 1. *The Decision Improperly Interprets The Prorater Statutes*

12 Under California law, the basic principles of statutory construction dictate that in
13 reviewing the meaning of a statute, the court must look to the words of the statute for guidance
14 and give those words their usual, plain and ordinary meaning. *See Sounhein v. City of San Dimas*,
15 47 Cal. App. 4th 1181, 1188 (1996) (noting that statutory interpretation is guided by the "plain-
16 meaning rule," such that words used in a statute should be given the meaning they bear in ordinary
17 use. If the language is clear and unambiguous, there is neither a need for construction nor a need
18 to resort to indicia of Legislative intent); *see also Ruiz v. Sylva*, 102 Cal. App. 4th 199, 209 (2002)
19 (same); *Kerollis v. Dep't of Motor Vehicles*, 75 Cal. App. 4th 1299, 1304 (1999) (same); *People v.*
20 *Pena*, 74 Cal. App. 4th 1078, 1082 (1999) (same).⁵

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⁵ Looking to legislative history in this case is not necessary because the Prorater Statute is clear that only a person who receives money or evidences thereof for the purpose of distributing money or evidences thereof in payment or partial payment of a debt falls within the definition of a "prorater." That said, it seems clear that the prorater statute was intended to address the concern that arises when a party is receiving money on behalf of a client with no regulatory oversight or assurance that the money will be properly handled. Of course that is not an issue in this case, because client money is held by a bank, RMBT, and administered by the bank's agent GCS.

1 A review of the Prorater Statutes clearly establishes that the NAS Petitioners are not
2 "proraters." Financial Code § 12200 sets forth the prohibition against acting as a "prorater"
3 without a license:

4 No person shall engage in the business, for compensation, of selling checks, drafts,
5 money orders, or other commercial paper serving the same purpose, or of receiving
6 money as agent of an obligor for the purpose of paying bills, invoices, or accounts
7 of such obligor, or acting as a prorater, nor shall any person, without direct
8 compensation and not as an authorized agent for a utility company, accept money
9 for the purpose of forwarding it to others in payment of utility bills, without first
10 obtaining a license from the commissioner.

11 Cal. Fin. Code § 12200. Financial Code § 12002.1 defines the term "prorater" as follows:

12 A prorater is a person who, for compensation, engages in whole or in part in the
13 business of receiving money or evidences thereof *for the purpose of distributing the*
14 *money or evidences thereof among creditors in payment or partial payment of the*
15 *obligations of the debtor.*

16 *Id.* § 12002.1 (emphasis added).⁶

17 The Prorater Statutes contain, *inter alia*, the following three requirements:

18 (a) To be a prorater, a person must receive money or evidences thereof; and

19 (b) The person must distribute the money or evidences

20 thereof among creditors; and

21 (c) The distribution of money and evidences thereof must be in payment or
22 partial payment of a debt or obligation.

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26 ⁶ The language of this provision is critical in that its focus is on "a person" engaging in the
27 described prorating activity. It does not say, as the DOC urged in its closing brief, that the
28 definition applies to a group of persons.

1 As the factual findings and legal conclusions in the Decision clearly illustrate, Petitioners
2 do not handle the money that is to be used to pay client debt. For example, the Decision provides
3 that “[e]ach NAS or Universal customer enters into a formal contract that provides the terms and
4 payment schedule due respondents for services rendered. Consistent with these contracts,
5 respondents NAS, Universal, and Universal Nationwide receive no money from customers for the
6 payment of debts owed by respondents’ customers to their creditors.” (Exhibit 142 ¶ 15.)

7 Similarly, the Decision states that,

8 Upon full payment of enrollment fees, NAS or Universal personnel
9 undertake the negotiation of customers’ debt with their respective creditors.

10 Rocky Mountain receives customer EFT deposits. Global facilitated the
11 establishment of the EFT process between the parties. . . . Global imposes fees
12 and charges, and directs EFT payments from Rocky Mountain bank customers to
13 Global for its account management function. Global also facilitates EFT transfer
14 to creditors of NAS or Universal customers from the customers’ Rocky
15 Mountain bank accounts.

16 (Exhibit 142 ¶ 18.)

17 In its legal discussion, the Decision once again states that “[a]dmittedly, respondents
18 themselves do not receive client funds; however, they do receive evidence of such funds’
19 deposits.” (Exhibit 142 at 8.) The Decision repeats this statement, providing that “While they
20 (NAS, Universal, or Universal Nationwide) do not directly receive money (a function reserved to
21 Global)” (*Id.*)

22 It is beyond question that Petitioners do not receive client money for the purposes
23 distributing such money to creditors in payment or partial payment of debt and thus, Petitioners do
24 not fall within in the plain meaning of the Prorater Statutes.

25 To hold that Petitioners are proraters, the Commissioner had to literally change the
26 meaning of the Prorater Statutes to account for the fact that Petitioners do not receive or distribute
27 client funds. But California law clearly states that judges cannot rewrite statutes. Specifically,
28 California C.C.P. § 1858 sets forth the general rule for construction of statutes as follows: “[i]n

1 the construction of a statute . . . , the office of the judge is simply to ascertain and declare what is
2 in terms or in substance contained therein, not to insert what has been omitted, or to omit what has
3 been inserted” Cal. Code Civ. P. § 1858. California case law further supports the
4 proposition that judges cannot rewrite statutes. *Cal. Ins. Guarantee Ass’n v. Workers Comp.*
5 *Appeals Bd.*, 128 Cal. App. 4th 569, 574 (2005) (citation omitted) (in construing statutory
6 provisions, a court is not authorized to insert qualifying provisions not included and may not
7 rewrite the statute to conform to an assumed intention which does not appear from its language);
8 *see also In re Elijah S.*, 125 Cal. App. 4th 1532, 1546 (2005) (same).

9 The critical portion of the Decision states as follows:

10 The Financial Code admittedly does not define “receiving money
11 or evidences thereof” or what constitutes “money or evidences thereof.” It
12 is nevertheless fundamental that a “receiving” can be either actual or
13 constructive. Operating within respondents’ business models, the
14 evidence reveals that once some evidence of the deposit of client funds in
15 Rocky Mountain is received, respondents commence the rendering
16 services. Admittedly, respondents themselves do not receive client funds;
17 however, they do receive evidence of such funds’ deposits. While the
18 Legislature has not defined “money or evidence thereof,” such shortfall, if
19 any, does not function to restrict the scope of complainant’s focus.

20 (Exhibit 142 at 8.)

21 As the Decision acknowledges, there is no definition of “evidences of money,” but
22 it is nonetheless clear from the remaining language of the Prorater Statutes that “evidences
23 of money” must refer to some alternative to cash because the “evidences of money” must
24 be able to be distributed to creditors and such distribution must be in payment or partial
25 payment of debt. The Decision correctly states that “evidences of money” is meant “to
26 expand not diminish, the scope and extent of what constitutes ‘money.’” But, this
27 expansion cannot, as the Decision indicates, include receiving information that a deposit
28 has been made in a bank account. Why? Because information that a deposit has been

1 made in a bank account cannot be distributed to a creditor in payment or partial payment of
2 a debt. So while it may not be clear what constitutes "evidences of money," it is
3 abundantly clear that it does not mean what the Commissioner thinks it means.⁷

4 In finding liability against the NAS Petitioners, not only did the Commissioner ignore its
5 own factual findings, it rewrote the Prorater Statutes, specifically, the term "receiving money or
6 evidences thereof." The Decision basically provides that if a person or entity has access to view
7 customers' accounts and uses information learned from that viewing in negotiating consumers'
8 debts, then that person/entity is a prorater. It is without question that the Commissioner rewrote
9 the Statutes to justify its otherwise unsupportable Decision, and in so doing, it exceeded its
10 jurisdiction.

11 2. *The Commissioner's Decision and Actions in this Case Violate Petitioners' Due*
12 *Process Rights*

13 It is axiomatic that due process requires that, at a minimum, a party have reasonable notice
14 of the consequences of their actions. *See In Re Cindy B.*, 192 Cal. App. 3d 771, 783-84 (1987); *In*
15 *re Michael D.*, 116 Cal. App. 3d 237, 244-45 (1981). In order to be constitutional, the notice must
16 be adequate to protect the rights at stake. *See In re Michael D.*, 116 Cal. App. 3d at 245. The
17 Commissioner is governed, in part, by the due process rights enunciated in the United States
18 Constitution. *See Dole Bakersfield, Inc. v. Workers' Comp. Appeals Bd.*, 64 Cal. App. 4th 1273,
19 1276 (1998). Although the Commissioner is obligated to abide by these due process laws, it failed
20 to do so in this case. Furthermore, the due process violations committed against the NAS
21 Petitioners were prejudicial because they effected the NAS Petitioners' substantial rights.

22 The due process violation in this case take three forms: (1) the Commissioner failed to
23 provide any notice in its First Statement or Amended First Statement that Petitioners' were
24 violating the Prorater Statutes because they received information about client bank accounts; (2) as
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26 ⁷ Moreover, if the Prorater Statutes are so vague that no one knows what the critical
27 portion of the statute means as it is applied to this case, then the Prorater Statutes must be
28 unconstitutionally vague and therefore void. *See discussion, infra*, regarding the
unconstitutionality of the Prorater Statutes as applied in this case.

1 is now evident by the Decision, the Prorater Statutes are unconstitutionally vague and therefore
2 void; and (3) the Commissioner never publicly articulated its new interpretation of the Prorater
3 Statute.

4 In this case, the Commission concocted its current interpretation of the Prorater Statutes so
5 that it did not have to admit that it failed to establish the facts upon which its enforcement action
6 was originally based.

7 At the initiation of this case, the Commissioner alleged in its First Statement and Amended
8 First Statement that Petitioners either directly received and distributed funds or in affiliation with
9 others received and distributed funds on behalf of their clients. The Commissioner could not
10 prove or convince the ALJ that Petitioners received funds or that they were affiliated with GCS,
11 despite dedicating almost the entirety of their closing briefs to these issues. Probably because it is
12 an interpretation that has no support, at no time did the Commissioner provide notice to Petitioners
13 or anyone else that having the ability to obtain information about a client's bank account balance
14 constituted "receiving evidence of money."

15 In fact, the only publicly available decisions related to prorating activity in California
16 suggest that absent the receiving and distribution of client funds, negotiating debt is not prorating.
17 As extensively discussed in Petitioners' Closing Brief, *In the Matter of Positive Return, Inc.*, OAH
18 N2004070225 (2004) ("*Positive Return*"), implies that if various services provided to clients are
19 handled by multiple entities, a violation of the Prorater Law can only be found if the multiple
20 entities constitute a single person, either via ownership or control.⁸ So not only is the Decision
21 inconsistent with the plain language of the Prorater Statutes, it is inconsistent with prior positions
22 taken by the Commissioner.

23 While Petitioners' believe that a plain meaning of the Prorater Statutes language
24 establishes that Petitioners' are not proraters, to the extent the Decision indicates otherwise, then
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27 ⁸ The Decision fails to address *Positive Return*.
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1 the Prorater Statutes must be unconstitutionally vague. Enforcement of a unconstitutionally vague
2 statute is also a violation of Petitioners' due process rights.

3 The underlying concern raised by a claim that a statute is unconstitutionally vague is "the
4 core due process requirement of adequate *notice*." *Gallo v. Acuna*, 14 Cal. 4th 1090, 1115 (1997)
5 (emphasis in original). "[A] statute which either forbids or requires the doing of an act in terms so
6 vague that men of common intelligence must necessarily guess at its meaning and differ as to its
7 application, violates the first essential of due process of law." *Id.* As noted in *Gallo*,

8 In its more recent application of the vagueness doctrine, the high court
9 has also expressed a concern for the potential for arbitrary and discriminatory
10 enforcement inherent in vague statutes. (See, e.g., *Smith v. Goguen* (1974) 415
11 U.S. 566 ...["We recognize that in a noncommercial context behavior as a
12 general rule is not mapped out in advance on the basis of statutory language. In
13 such cases, perhaps the most meaningful aspect of the vagueness doctrine is not
14 actual notice, but the other principal element of the doctrine—the requirement that
15 a legislature establish minimal guidelines to govern law enforcement." (fn.
16 omitted.)])

17 *Id.* at 1116.

18 Such is the problem in this case. The Prorater Statutes appear to be facially quite clear. If
19 a person does not receive money or evidences thereof from a client and distribute that money or
20 evidences thereof to a creditor in payment or partial payment of a debt, such person is not a
21 prorater and need not be licensed by the state. Though not defined, it seems clear that "evidences
22 thereof of" must refer to some equivalent of money because the distribution thereof must
23 constitute a payment or partial payment of a debt. Receiving a bank statement or having access to
24 account information simply cannot qualify. But if the lack of a definition in the Prorater Statute
25 permits the Commissioner to arbitrarily and discriminately interpret the Prorater Statutes as it has
26 in this case, then the Prorater Statutes are clearly unconstitutionally vague and therefore,
27 unenforceable.

28

1 X. CONCLUSION

2 This case highlights all that is wrong with an administrative process that permits an
3 enforcing agency to determine whether that agency's enforcement activities are proper. The
4 Commissioner initiated its action against Petitioners believing they received money. The evidence
5 established otherwise. The Commissioner initiated this action believing that Petitioners were
6 affiliated with GCS and that together, these entities were proraters. The evidence established
7 otherwise. The Commissioner initiated this action knowing that "receiving money or evidence
8 thereof" meant receiving money or some money equivalent, like a check; but to justify its
9 enforcement action against Petitioners, it has interpreted the Prorater Statutes in a way that no
10 independent and disinterest person could and in doing so, trampled Petitioners' due process rights.
11 This Court must vacate the Commissioner's Decision because it is plainly wrong and disregards
12 all notions of due process.

13 WHEREFORE, the NAS Petitioners pray that this Court:

- 14 1. Issue a writ of mandamus or other appropriate order to the Commissioner at the
15 Department of Corporations directing the Commissioner to vacate the Decision and to vacate the
16 Desist and Refrain Order issued to Petitioners; and
17 2. For such other and further relief as the Court deems just and proper.
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21 September 1, 2006

LOEB & LOEB LLP
MICHAEL L. MALLOW
MICHELLE M. SHARONI

24 By: _____

25 Attorneys for Petitioners
26 Nationwide Asset Services, Inc., Universal
27 Nationwide, LLC and Universal Debt
28 Reduction

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VERIFICATION

I, Gary Brown, declare as follows:

I have read the foregoing Petition For Writ of Administrative Mandamus and know its contents.

I am an officer of Petitioners Nationwide Asset Services, Inc., Universal Nationwide LLC and Universal Debt Reduction, parties to this action, and am authorized to make this verification for and on their behalf, and I make this verification for that reason.

The matters stated in the foregoing document are true of my own knowledge.

Executed on August 31, 2006, at Victoria, British Columbia, Canada.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct.

Executed this 31st day of August, 2006, at Victoria, British Columbia, Canada.

Gary Brown

VERIFICATION

3 SERVICE LIST

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5 California Corporations Commissioner
6 California Department of Corporations
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9 Telephone No.: 415/972-8559
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