

1 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
2 DIVISION OF FINANCE AND CORPORATE SECURITIES
3 ENFORCEMENT SECTION
4 BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

4 In the Matter of:

M-07-0018

5 Diamond Financial Mortgage Group
6 of America, Inc. and Kevin
7 Covington

8 Respondents.

ORDER TO CEASE AND DESIST,
ORDER OF REVOCATION,
ORDER BARRING FROM CONTROL
POSITIONS,
ORDER IMPOSING CIVIL PENALTIES
and
CONSENT TO ENTRY OF ORDER

9
10 WHEREAS the Director of the Department of Consumer and Business Services
11 for the State of Oregon (hereinafter "the Director") conducted an investigation of
12 Diamond Financial Mortgage Group of America, Inc. and determined that Diamond
13 Financial Mortgage Group of America, Inc. (hereinafter "Diamond") and Kevin Covington
14 hereinafter "Covington") engaged in activities constituting violations of ORS 59.840
15 through 59.965 (hereinafter cited as the Oregon Mortgage Lender Law); and

16 WHEREAS Diamond and Covington wish to resolve and settle this matter with
17 the Director,

18 NOW THEREFORE, as evidenced by the authorized signatures subscribed on
19 this order, Diamond and Covington without admitting the Findings of Fact and
20 Conclusions of Law herein, hereby **CONSENT** to entry of this order upon the Director's
21 Findings of Fact and Conclusions of Law as stated hereinafter:

22 **FINDINGS OF FACT**

23 The Director **FINDS** that:

- 24 1. Diamond is the successor corporation of Diamond Financial Mortgage Group of
25 Oregon, Inc. Diamond is an Oregon corporation that acts as a mortgage broker.
26 Covington is an owner of Diamond.

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1 2. The Division of Finance and Corporate Securities (hereinafter "the Division") first
2 licensed Diamond to engage in Oregon residential mortgage transactions on November
3 28, 2001 under the name Diamond Financial Inc. That license was cancelled on June
4 12, 2003 when a new license was issued to Diamond under the name Diamond
5 Financial Group of Oregon, Inc. Diamond failed to submit a complete application for
6 renewal prior to the expiration of the license such that the Division cancelled the license
7 for failure to renew on June 11, 2004. Diamond submitted a complete application to
8 renew the license and the Division subsequently issued the Diamond a license to
9 engage in Oregon residential mortgage lending on June 14, 2004 retroactive to June
10 11, 2004. Therefore Diamond has been continuously licensed to engage in Oregon
11 residential mortgage lending since November 28, 2001. On August 18, 2005, the
12 Division recognized that the company changed its name to Diamond Financial Mortgage
13 Group of America, Inc.

14 3. Diamond is the subject of Cease and Desist Order number M-05-0048 issued by
15 the Director and entered on February 2, 2006 after Diamond had notice and opportunity
16 to be heard (hereinafter "the 2006 Order"). At the time, Covington (hereinafter
17 "Covington") was the sole owner of Diamond. The 2006 Order concludes that Diamond
18 violated a number of books and records and loan originator requirements. In the 2006
19 Order, Diamond was ordered to pay civil penalties of \$90,000 pursuant to a payment
20 plan requiring monthly payments of \$2,000 beginning on February 1, 2006. Diamond
21 made three \$2,000 payments on January 30, 2006, March 1, 2006 and April 4, 2006 for
22 a total of \$6,000. Diamond reported to the Director thereafter that it would be unable to
23 make the monthly payments. Diamond still owes civil penalties of \$84,000.

24 4. On or prior to April 30, 2006, Covington, a loan originator and owner of Diamond,
25 took a loan application from S [REDACTED] V [REDACTED] (hereinafter "V [REDACTED]") for an Oregon
26 residential mortgage loan to be secured by her primary residence located in Sherwood,



1 Oregon (hereinafter "the V [REDACTED] home") in an effort to cash-out equity in the home to
2 stabilize her sporadic income.

3 5. Diamond was unable to obtain a loan at favorable terms for V [REDACTED]. Covington
4 presented V [REDACTED] with several options to prevent losing the home to foreclosure.
5 Among the options, Covington offered that V [REDACTED] could work with Kit Todd Hammett
6 dba OPM & Associates (hereinafter "Hammett") to "sell" her home to "buyers" located by
7 Hammett in a straw purchaser transaction in which V [REDACTED] would be allowed to
8 continue living in the home and would pay the mortgage of the "buyers" until such time
9 as she could secure acceptable financing in her own name.

10 6. V [REDACTED] met with Hammett to discuss the straw purchaser transaction option and
11 elected to proceed in that manner. Diamond terminated its efforts to locate a loan for
12 Valentic.

13 7. Hammett arranged for David and Helen Womacks (hereinafter "the Womacks") to
14 act as the "buyers" of the Valentic home. Hammett agreed to pay the Womacks a
15 "commission" of \$15,000 to engage in the straw purchaser transaction.

16 8. On June 6, 2006, Covington, on behalf of Diamond, took a loan application from
17 the Womacks for an Oregon residential mortgage loan to be secured by the V [REDACTED]
18 home as part of the straw purchaser transaction. The application indicated that the
19 Womacks intended to occupy the property as their primary residence.

20 9. Diamond submitted the loan application for funding to American Mortgage
21 Network (hereinafter "AMNet") as an owner-occupied stated income, stated asset loan.
22 Based upon applications submitted by the Diamond, AMNet agreed to make two loans
23 to the Womacks secured by the V [REDACTED] home: a first mortgage for \$892,000 and a
24 second mortgage of \$223,000 (hereinafter "the AMNet loans").

25 10. On or about July 3, 2006, Covington, on behalf of Diamond, took the closing
26 paperwork for the AMNet loans to the Womacks' home in Washington State for them to



1 sign. Only Covington and the Womacks were present. Covington directed the
2 Womacks with regard to the signing of the documents for the AMNet loans. Among the
3 documents that the Womacks' signed was an Occupancy Affidavit in which they agreed
4 that they would occupy the V [REDACTED] home as their primary residence for at least one
5 year following the close of the AMNet loans. The Womacks also signed a Deed of Trust
6 securing the first mortgage loan (hereinafter "the Deed") that contained an occupancy
7 clause in which they agreed that they would occupy the V [REDACTED] home as their principal
8 residence within 60 days after signing the document and would live in the property for at
9 least one year from the date of occupancy.

10 11. At the direction of Covington, the Womacks signed the Deed on July 3, 2006.
11 The Womacks did not sign the Deed in the presence of a notary.

12 12. On July 7, 2006, the Womacks "purchased" the V [REDACTED] home from V [REDACTED] for
13 \$1,115,000 using the AMNet loans. From close of escrow, Hammett received \$50,000
14 and Diamond received \$18,770 in broker fees.

15 13. The Womacks did not occupy the property within 60 days following close of
16 escrow. Diamond was aware that the Womacks never intended to occupy the property.

17 14. AMNet relied upon the documents submitted by Diamond, including the
18 application, the Occupancy Affidavit and the Deed of Trust, which all indicated that the
19 Womacks would occupy the V [REDACTED] home as their primary residence. If Diamond had
20 submitted these documents truthfully showing that the Womacks did not intend to
21 occupy the V [REDACTED] home as their primary residence, AMNet would not have made the
22 AMNet loans on the terms they were made.

23 CONCLUSIONS OF LAW

24 The Director **CONCLUDES** that:

25 1. Diamond and Covington violated ORS 59.930(2) when Diamond and Covington
26 submitted to AMNet the application, Occupancy Agreement and Deed of Trust that all

1 contained the false and material statement that the Womacks would occupy the V [REDACTED]
2 home when Diamond and Covington knew that the Womacks never intended to occupy
3 the V [REDACTED] home.

4 2. Diamond engaged in unfair or unethical conduct in connection with the mortgage
5 broker business under ORS 59.865(2) when Diamond violated ORS 59.930(2) in
6 connection with the submission of documents to AMNet containing statements known to
7 be materially false, which constitutes grounds to revoke the license to engage in Oregon
8 residential mortgage loans issued to Diamond.

9 3. Diamond is the subject of the 2006 Order which was issued within the past five
10 years and entered after notice and opportunity for a hearing, which constitutes grounds
11 pursuant to ORS 59.865(13) to revoke the license to engage in Oregon residential
12 mortgage loans issued to Diamond.

13 ORDER

14 The Director, pursuant to ORS 59.885(4), hereby **ORDERS** that Diamond and
15 Covington will **CEASE AND DESIST** from violating any provision of Oregon Mortgage
16 Lender Law, OAR 441-850-0005 through 441-885-0010 and any rule, order or policy
17 issued by the Division.

18 The Director, pursuant to ORS 59.865, hereby **REVOKES** the Oregon residential
19 mortgage lender license issued to Diamond.

20 The Director, pursuant to ORS 59.885(4), hereby **ORDERS** that Covington may
21 not serve as an officer, director, partner or experienced person for a mortgage banker or
22 mortgage broker, or occupy similar status or perform similar functions of an officer,
23 director, partner or experience person for a mortgage banker or mortgage broker.
24 Covington may act as loan originators, as that term is defined in ORS 59.840(4), for any
25 mortgage broker or mortgage broker licensed by the Division to engage in Oregon
26 residential mortgage lending provided that the mortgage broker or mortgage banker

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1 obtains written approval from the Director. Written approval will be granted upon a
2 satisfactory showing by the mortgage broker or mortgage banker that it has policies and
3 procedures in place to provide adequate supervision, including but not limited to review
4 and verification of application materials for completeness and accuracy prior to
5 submission to the lender for each loan originated by Covington.

6 The Director, pursuant to ORS 59.996 hereby **ORDERS** Covington to pay the
7 State of Oregon a civil penalty of \$2,500 for the violation of ORS 59.930(2).

8 The Director, pursuant to ORS 59.885(4), hereby **ORDERS** that the remaining
9 \$84,000 of the civil penalty imposed in the 2006 Order shall be suspended for a seven-
10 year period. If in the period between the date of this Order to seven years from the date
11 of this Order, Covington violates any provision of the Oregon Mortgage Lender Law,
12 OAR 441-850-0005 through 441-885-0010 or any rule, order, or policy issued by the
13 Director, Covington will be responsible to pay the suspended portion of the assessed
14 civil penalty. If Covington does not violate the Oregon Mortgage Lender Law, OAR 441-
15 850-0055 through 441-885-0010 or any rule, order, or policy issued by the Director in
16 five years from the date of the Order, the suspended portion of the civil penalty is
17 waived.

18 The date of this order is the day the Director or Director's nominee signs the
19 order. The entry of this Order in no way limits further remedies which may be available
20 to the Director under Oregon law.

21 Dated this 31st day of October, 2007, at Salem, Oregon.

22 CORY STREISINGER, Director
23 Department of Consumer and Business Services

24
25 
26 David Tatman, Administrator
Division of Finance and Corporate Securities

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CORPORATE CONSENT TO ENTRY OF ORDER

I, Kevin Covington, state that I am an officer of Diamond, and I am authorized to act on its behalf; that I have read the foregoing Order and that I know and fully understand the contents hereof; that I and this entity have been advised of the right to a hearing and of the right to be represented by counsel in this matter; that Diamond voluntarily and without any force or duress, consents to the entry of this Order without admitting the Findings of Fact and Conclusions of Law contained herein, expressly waiving any right to a hearing in this matter; that Diamond understands that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Mortgage Lender Law; and that Diamond will fully comply with the terms and conditions stated herein.

Diamond further assures the Director that neither Diamond, nor its officers, directors, employees or agents will effect mortgage transactions in Oregon unless such activities are in full compliance with Chapter 59 of the Oregon Revised Statutes.

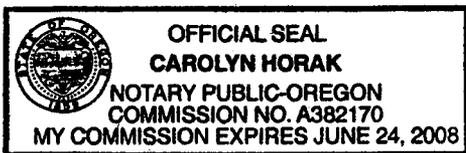
Diamond understands that this Consent Order is a public document.

Dated this 23rd day of October, 2007.

By [Signature]
Officer

CORPORATE ACKNOWLEDGMENT

There appeared before me this 23rd day of October, 2007, Kevin Covington, who was first duly sworn on oath, and stated that he was and is an owner of Diamond and that he is authorized and empowered to sign this Consent to Entry of Order on behalf of Diamond, and to bind Diamond to the terms hereof.



Carolyn Horak
Notary Public
for the State of: Oregon
My commission expires: 6/24/08

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CONSENT TO ENTRY OF ORDER

I, Kevin Covington, state that have read the foregoing Order and that I know and fully understand the contents hereof; that I have been advised of the right to a hearing and of the right to be represented by counsel in this matter; that I admit the Findings of Facts and Conclusion of Law contained herein; that I voluntarily and without any force or duress, consent to the entry of this Order without admitting the Findings of Fact and Conclusions of Law contained herein, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Mortgage Lender Law; and that I will fully comply with the terms and conditions stated herein.

I further assure the Director that neither I nor any employees or agents of mine will effect mortgage transactions in Oregon unless such activities are in full compliance with Chapter 59 of the Oregon Revised Statutes and authorized by the Director.

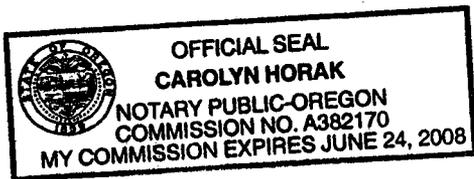
I understand that this Consent Order is a public document.

Dated this 23rd day of October, 2007.

By [Signature]
Kevin Covington

ACKNOWLEDGMENT

Sworn to under oath before me this 23rd day of October, 2007, by Kevin Covington.



Carolyn Horak
Notary Public
For the State of: Oregon
My commission expires: 6/24/08

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