

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES
ENFORCEMENT SECTION
BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of:

Allegiance Mortgage, LLC and
Brian Fallini

Respondents.

M-06-0039-1
M-06-0039-2

ORDER OF REVOCATION OF
MORTGAGE BANKER/BROKER LICENSE
ORDER BANNING FROM EMPLOYMENT
WITH MORTGAGE BANKER/BROKER
ORDER TO CEASE AND DESIST
ORDER IMPOSING CIVIL PENALTIES

And
CONSENT TO ENTRY OF ORDER

WHEREAS the Director of the Department of Consumer and Business Services for the State of Oregon (hereinafter "the Director") conducted an investigation of Allegiance Mortgage, LLC and Brian Fallini and determined that Allegiance Mortgage, LLC and Brian Fallini engaged in activities constituting violations of ORS 59.840 through 59.965 (hereinafter cited as the Oregon Mortgage Lender Law); and

WHEREAS Allegiance Mortgage, LLC and Brian Fallini wish to resolve and settle this matter with the Director,

NOW THEREFORE, as evidenced by the authorized signature subscribed on this order, Allegiance Mortgage, LLC and Brian Fallini hereby **CONSENT** to entry of this order upon the Director's Findings of Fact and Conclusions of Law as stated hereinafter:

FINDINGS OF FACT

The Director **FINDS** that:

1. Allegiance Mortgage LLC (hereinafter "Allegiance") is an Oregon corporation that conducts the business of a mortgage broker by completing loan applications for Oregon residential mortgage loans for its customers. Allegiance then submits the applications

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1 to prospective lenders to approve and make the loan based upon the information
2 contained in the applications with the intention that the lender approves the loans so
3 Allegiance earns a commission. Brian Fallini (hereinafter "Fallini") is the sole owner of
4 Allegiance. At all times relevant herein, Allegiance employed Mark Harless, Hien
5 Williams and Darla Anderson as loan originators to take loan applications on behalf of
6 Allegiance.

7 2. Allegiance first obtained a license to engage in Oregon residential mortgage
8 loans on June 2, 2000 and the current license is set to expire on June 2, 2007. At all
9 times relevant herein, Allegiance was an approved lender of the Department of Housing
10 and Urban Development (hereinafter "HUD").

11 3. On March 26, 2004, M and L A obtained a residential mortgage
12 loan of \$240,000 based upon an application taken by Hien Williams that listed the
13 A monthly income as \$8,500. Allegiance knew that the prospective lender
14 would rely upon the income information in the application. At the time that Allegiance
15 submitted the application, Allegiance knew the income information in the application
16 was false because Allegiance had W-2s and pay stubs in its file that indicated that the
17 A monthly income was not \$8,500. The lender relied upon the income
18 information submitted by Allegiance and would not have made the loan on the terms it
19 was made if the income information was different.

20 4. On October 29, 2004, K K obtained two mortgage loans based upon
21 applications taken by Darla Anderson that listed K K employment as
22 Counselor with monthly income of \$4,000. Allegiance knew that the prospective lender
23 would rely upon the income information in the application. Allegiance knew the
24 reported income of \$4,000 listed on the applications was false because Allegiance had
25 bank statements in its file that contained monthly deposits that indicated that K
26 K did not earn \$4,000 per month and a previous application taken by Darla

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1 Anderson in the process for obtaining these loans listed K K employment
 2 as Office Manager with monthly income of \$2,500, which was consistent with K
 3 K bank deposit information. The lender relied upon the income information
 4 submitted by Allegiance and would not have made the loans on the terms they were
 5 made if the income information was different.

6 5. On January 31, 2005, J and E R obtained a mortgage loan based
 7 upon an application taken by Mark Harless that listed the R annual income as
 8 \$60,000. Allegiance knew that the prospective lender would rely upon the income
 9 information in the application. Allegiance knew the reported income was false because
 10 Allegiance had W-2s and pay stubs in its file that indicated that the R income was
 11 not consistent with \$60,000 per year. The lender relied upon the income information
 12 submitted by Allegiance and would not have made the loan on the terms it was made if
 13 the income information was different.

14 6. At all times relevant, "My Little Children" is an assumed business name of Alice
 15 Huff used in connection with a retail store she operates in Eugene, Oregon. At all times
 16 relevant, Alice Huff lived with Mark Harless and they have a child together. Mark
 17 Harless was familiar with the operation of the My Little Children business such that he
 18 was aware that the company did not employ A P J D , D
 19 S , and D R as managers of My Little Children.

20 7. In January 2005, Allegiance hired Shawna Asbury as the receptionist. She had
 21 no prior experience in the mortgage industry. Fallini asked the receptionist to review
 22 certain loan files to determine if they contained the required initials and signatures in
 23 preparation for a HUD audit. After that he asked her to check the files for compliance
 24 despite the fact that she had no experience in the industry and no training in mortgage
 25 compliance. The receptionist began performing the compliance review for Allegiance.
 26 The only instruction she was provided was in the form of a checklist from Fallini to use

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1 in the reviewing the loans; she was not provided any training. The receptionist followed
 2 the compliance process dictated by Fallini, which included only reviewing loans that
 3 were closed. Loans that were in progress were not reviewed for compliance despite the
 4 fact that reviewing only closed files is insufficient to detect and cure many compliance
 5 issues.

6 8. The receptionist reviewed the files and was concerned that the employer listed
 7 for the borrowers on two loans originated by Mark Harless was My Little Children, as
 8 she was aware that this was the business of Alice Huff and that the employment
 9 information appeared suspicious. The receptionist shared her concerns with a
 10 processor, who confirmed that the information was suspicious. The receptionist
 11 reported to Fallini that there were irregularities in the loan files in that the employer
 12 listed for the borrowers was My Little Children. Fallini told the receptionist that he would
 13 handle the matter.

14 9. Sometime in February 2005, Fallini met with Mark Harless individually and all the
 15 loan originators in a meeting for mortgage fraud in which they were reportedly told there
 16 was a "no tolerance policy" regarding mortgage fraud. Shawna Asbury reported that
 17 there was no other apparent action taken by Allegiance Mortgage as a result of the
 18 information she provided as outlined in Finding of Fact 8.

19 10. On February 14, 2005, A P obtained two residential mortgage loans
 20 based upon applications taken by Hien Williams that indicated that the borrower was
 21 employed as a manager of My Little Children for two years with a monthly salary of
 22 \$3,500. Allegiance and Fallini knew that the prospective lender would rely upon the
 23 employment and income information in the application. Allegiance knew and Fallini
 24 should have known that A P was employed as a real estate broker and was not
 25 employed by My Little Children in any capacity. Allegiance had in the borrower's file an
 26 application showing that A P was not employed by My Little Children in any

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1 capacity, had been employed as a real estate broker for one year and prior to that was
 2 employed as a receptionist earning less than \$3,500 per month. The file also contained
 3 a copy of A P real estate broker license. At the direction of Hien Williams,
 4 A P paid \$200 to Mark Harless by check provided to Hien Williams, even
 5 though Mark Harless was not associated with the loan in any manner. A P did
 6 not know what the money was to be used for other than to get the loan approved. The
 7 lender relied upon the income information submitted by Allegiance and would not have
 8 made the loans on the terms they were made if the employment information was
 9 different.

10 11. On March 28, 2005, J D obtained two residential mortgage loans
 11 based upon applications taken by Mark Harless that indicated that the borrower was
 12 employed as a manager of My Little Children for four years with a monthly salary of
 13 \$4,400. Allegiance knew and Fallini should have known that the prospective lender
 14 would rely upon the employment and income information in the application. At the
 15 time, J D was not employed and her only income came from social
 16 security benefits. In an interview in connection with the criminal case, Mark Harless
 17 admitted that the borrower was not employed by My Little Children and that the reported
 18 employment and income information was false. Allegiance had bank statements in its
 19 file that indicated that J D income was from social security and was not
 20 \$4,400. The lender relied upon the employment and income information submitted by
 21 Allegiance and would not have made the loans on the terms they were made if the
 22 employment information was different.

23 12. On April 5, 2005, D S applied for a residential mortgage loan of
 24 \$63,500 based upon an application taken by Hien Williams that indicated that the
 25 borrower was employed as a manager of My Little Children with a monthly salary of
 26 \$3,000. Allegiance and Fallini knew that the prospective lender would rely upon

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1 employment information in the application. Allegiance knew and Fallini should have
2 known the employment information was false because My Little Children did not employ
3 D. S in any capacity. The lender relied upon the employment information
4 submitted by Allegiance and would not have made the loan on the terms it was made if
5 the income information was different.

6 13. On April 11, 2005, D. and A. R obtained two residential mortgage
7 loans based upon applications taken by Hien Williams that indicated that David Rodarte
8 was employed as a manager of My Little Children with a monthly salary of \$3,000.
9 Allegiance and Fallini knew that the prospective lender would rely upon the employment
10 information in the application. Allegiance knew and Fallini should have known the
11 employment information was false because My Little Children did not employ D.
12 R in any capacity. The lender relied upon the employment information submitted
13 by Allegiance and would not have made the loans on the terms they were made if the
14 income information was different.

15 14. On June 30, 2005, D. S obtained two mortgage loans based upon
16 applications taken by Darla Anderson that listed D. S monthly income as
17 \$8,333. Allegiance and Fallini knew that the prospective lender would rely upon the
18 employment information in the application. Allegiance knew and Fallini should have
19 known the employment information was false because Allegiance had tax returns in its
20 file that indicated that D. S income was not consistent with a monthly
21 income of \$8,333. The lender relied upon the income information submitted by
22 Allegiance and would not have made the loans on the terms they were made if the
23 income information was different.

24 15. On October 20, 2005, M. S obtained a mortgage loan based upon an
25 application taken by Darla Anderson that listed M. S monthly income as
26 \$12,500 per month. Allegiance and Fallini knew that the prospective lender would rely

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1 upon the income information in the application. Allegiance knew and Fallini should have
2 known the income information was false because Allegiance had W-2s in its file that
3 indicated that M S monthly income was not consistent with \$12,500. The
4 lender relied upon the income information submitted by Allegiance and would not have
5 made the loan on the terms it was made if the income information was different.

6 16. On December 27, 2004, Allegiance sent e-mail to Ann Marie Mehlum, the
7 President of Summit Bank, seeking a "short-term loan for FHA auditing purposes" of
8 \$165,000. The e-mail noted that the "funds need to show in our account before the end
9 of the year."

10 17. HUD requires that their approved lenders comply with certain net worth
11 requirements. The minimum net worth requirement imposed by HUD is \$63,000. If an
12 approved lender fails to meet the net worth requirements, the approved lender will lose
13 the ability to originate FHA loans.

14 18. The Director reviews financial statements submitted by an applicant to obtain or
15 renew an Oregon residential mortgage lender license to assess the company's financial
16 condition as part of the determination whether or not to issue the applicant a license.
17 Fallini and Allegiance were aware that financial statements are a required part of the
18 application to renew an Oregon mortgage lender license and that insolvency is a basis
19 for the denial of an Oregon mortgage lender license.

20 19. On December 30, 2004, Allegiance received a \$175,000 loan from Summit
21 Bank (hereinafter "the Summit loan") that was due to mature on January 29, 2005. The
22 decision to grant the Summit loan was based, at least in part, on the understanding that
23 the proceeds of the Summit loan would be used to purchase a Certificate of Deposit at
24 Summit Bank in the same amount as the Summit loan, thus, the loan represented little
25 risk to Summit Bank.

26 20. Allegiance used the Summit loan to purchase a Certificate of Deposit in its

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1 name in the amount of \$175,000 at Summit Bank (hereinafter "the CD").

2 21. Allegiance paid off the Summit loan on February 1, 2005 using the proceeds of
3 the CD.

4 22. In March 2005, Summit Bank began receiving requests from Allegiance to
5 change the Summit loan. In connection with the requests, Summit Bank received an
6 undated memo from Fallini on Allegiance letterhead (hereinafter "the Fallini memo"). In
7 the Fallini memo, Fallini notes that the Summit loan "should have been done differently.
8 I should have been the sole individual borrower on the loan. And the CD should have
9 been in the name of the company. It is important for my accounting reasons that my
10 transaction be recorded this way. We need to reclassify the transaction for company
11 accounting reasons."

12 23. Although Summit originally declined to "rebook" the loan, after repeated
13 requests from Allegiance through Fallini, Summit Bank agreed to "rebook" the Summit
14 loan to reflect that it was made to Fallini instead of Allegiance. The Summit loan was
15 "rebooked" on or about March 23, 2005.

16 24. On or about April 25, 2005, Allegiance filed with the Director an application to
17 renew the license to engage in Oregon residential mortgage lending. As a material part
18 of the application for an Oregon residential mortgage lender license, Allegiance filed
19 financial statements for the period ending December 31, 2004 entitled "Balance
20 Sheets," "Statements of Operation" and "Statements of Change," each of which were
21 signed and dated by Fallini on April 20, 2005 (hereinafter "the Allegiance Financial
22 Statements").

23 25. The Allegiance Financial Statements listed current assets totaling \$340,394.
24 including the \$175,000 CD purchased with the Summit loan. The Allegiance Financial
25 Statements listed current liabilities of \$252,944, which included a bank note payable of
26 \$132,305., but not the Summit loan. The Allegiance Financial Statements indicated that

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1 the company's net worth was \$87,450.

2 26. If the Allegiance Financial Statements had properly included the Summit loan in
3 the current liabilities, then the current liabilities would have been \$427,944 and the
4 company's financial statements should have shown a negative \$87,550 net worth.

5 27. As of the date of this Order, Allegiance has not filed corrected financial
6 statements.

7
8 **CONCLUSIONS OF LAW**

9 The Director **CONCLUDES** that:

10 1. Allegiance violated ORS 59.930(2) when it submitted a loan application
11 knowing it contained materially false income information to obtain a loan for M and
12 L A

13 2. Allegiance violated ORS 59.930(2) when it submitted two loan applications
14 knowing they contained materially false income information to obtain two loans for K
15 K.

16 3. Allegiance violated ORS 59.930(2) when it submitted a loan application
17 knowing it contained materially false income information to the lender to obtain a loan
18 for J and E R

19 4. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted two
20 loan applications that contained materially false employment information to obtain two
21 loans for A P when Allegiance knew and Fallini should have known the
22 employment information was false.

23 5. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted two
24 loan applications knowing they contained materially false employment information to
25 obtain two loans for J D when Allegiance knew and Fallini should have
26 known the employment information was false.

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1 6. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted a
2 loan application knowing it contained materially false employment information to apply
3 for a loan for D S when Allegiance knew and Fallini should have known the
4 employment information was false.

5 7. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted two
6 loan applications knowing they contained materially false employment information to
7 obtain two loans for D and Ana R when Allegiance knew and Fallini should
8 have known the employment information was false.

9 8. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted two
10 loan applications knowing they contained materially false income information to obtain
11 two loans for D S when Allegiance knew and Fallini should have known the
12 income information was false.

13 9. Allegiance and Fallini violated ORS 59.930(2) when Allegiance submitted a
14 loan application knowing they contained materially false income information to obtain a
15 loan for M S when Allegiance knew and Fallini should have known the income
16 information was false.

17 10. By violating ORS 59.930(2) by submitting loan applications that contained
18 materially false information, Allegiance engaged in dishonest, fraudulent, or illegal
19 practices or conduct in the mortgage lender business, which constitutes grounds for the
20 Director to revoke the Oregon residential mortgage lending license issued to Allegiance
21 pursuant to ORS 59.865(2).

22 11. By repeatedly violating ORS 59.930(2) by submitting loan applications that
23 contained materially false information, Allegiance and Fallini repeatedly failed to comply
24 with a provision of ORS 59.840 to 59.980, which constitutes grounds for the Director to
25 revoke the Oregon residential mortgage lending license issued to Allegiance pursuant to
26 ORS 59.865(3).

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1 12. By allowing loan originators Darla Anderson, Mark Harless, and Hien
 2 Williams to submit loan applications containing material information known to be false to
 3 obtain mortgage loans for consumers, by employing a person to perform compliance
 4 functions that has no experience in the mortgage industry and failing to provide
 5 reasonable training, and by failing to have a compliance system that reviews loans in
 6 process as well as closed files, Allegiance and Fallini failed to adequately control and
 7 diligently supervise the loan origination activities of each of these employed loan
 8 originators, which constitutes grounds for the Director to revoke the Oregon residential
 9 mortgage lending license issued to Allegiance pursuant to ORS 59.865(15).

10 13. Fallini and Allegiance violated ORS 59.930(4) when they submitted to the
 11 Director the Allegiance Financial Statements signed by Fallini knowing they contained
 12 materially false information about the company's assets, liabilities and net worth.

13 14. As of the date of this Order, Allegiance has filed a renewal application for
 14 an Oregon residential mortgage lender license that contains financial statements that
 15 are false or misleading with respect to a material fact, which constitutes grounds for the
 16 Director to revoke the Oregon residential mortgage lending license issued to Allegiance
 17 pursuant to ORS 59.865(5).

ORDER

NOW, THEREFORE, THE DIRECTOR ISSUES THE FOLLOWING ORDERS:

21 The Director, pursuant to ORS 59.885(4), hereby **ORDERS** that Allegiance will
 22 **CEASE AND DESIST** from violating any provision of Oregon Mortgage Lender Law,
 23 OAR 441-850-0005 through 441-885-0010 and any rule, order or policy issued by the
 24 Director.

25 The Director, pursuant to ORS 59.865, hereby **REVOKES** the Oregon residential
 26 mortgage lending license issued to Allegiance and **ORDERS** that Brian Fallini shall be

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1 permanently banned from owning, controlling, operating or working for in any capacity
2 related to mortgage lending any company licensed as a mortgage broker or banker by
3 the Division of Finance and Corporate Securities.

4 The Director, pursuant to ORS 59.996 hereby **ORDERS** Fallini to pay the State
5 of Oregon a civil penalty of \$35,000. The civil penalty is based upon \$5,000 for each of
6 six violations of ORS 59.930(2) and \$5,000 for one violation of ORS 59.930(4).

7 The Director suspends payment of \$35,000 of the assessed civil penalty for a
8 ten-year period. If in the period between the date of the Order to ten years from the
9 date of the Order, Fallini violates any provision of the Oregon Mortgage Lender Law,
10 OAR 441-850-0005 through 441-885-0010 or any rule, order, or policy issued by the
11 Director, the suspended portion of the assessed civil penalty will become immediately
12 due and payable. If Fallini does not violate the Oregon Mortgage Lender Law, OAR
13 441-850-0005 through 441-885-0010 or any rule, order, or policy issued by the Director
14 in ten years from the date of the Order, the suspended portion of the civil penalty is
15 waived.

16 The Director, pursuant to ORS 59.996 hereby **ORDERS** Allegiance to pay the
17 State of Oregon a civil penalty of \$50,000. The civil penalty is based upon \$5,000 for
18 one violation of ORS 59.930(4), \$5,000 for each of six violations of ORS 59.930(2) and
19 \$1,875 for each of eight additional violations of ORS 59.930(2).

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

23 Dated this 18th day of April, 2008, at Salem, Oregon.

24
25 CORY STREISINGER, Director
26 Department of Consumer and Business Services

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David Tatman

David Tatman, Administrator
Division of Finance and Corporate Securities

Approved this 30th day of May, 2008.

Ronald R. Sticka

Ronald R. Sticka
U.S. Bankruptcy Trustee

Approved as to form:

Kevin Swingdoff

Kevin Swingdoff, OSB #891273
Attorney for Brian Fallini

CORPORATE CONSENT TO ENTRY OF ORDER

I, Brian Fallini, state that I am an officer of Allegiance, 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 Allegiance voluntarily and without any force or duress, consents to the entry of this Order, expressly waiving any right to a hearing in this matter; that Allegiance 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 Allegiance will fully comply with the terms and conditions stated herein.

Allegiance further assures the Director that neither Allegiance, 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.

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1 Allegiance understands that this Consent Order is a public document.

2 Dated this 15th day of April, 2008.

3
4 By [Signature]
5 Brian Fallini, President

6 **CORPORATE ACKNOWLEDGMENT**

7 There appeared before me this 15th day of April, 2008, Brian
8 Fallini, who was first duly sworn on oath, and stated that he was and is President of
9 Allegiance and that he is authorized and empowered to sign this Consent to Entry of
10 Order on behalf of Allegiance, and to bind Allegiance to the terms hereof.



11
12 [Signature]
13 Notary Public
14 for the State of: Oregon
15 My commission expires: Aug. 22, 2010

16 **CONSENT TO ENTRY OF ORDER**

17 I, Brian Fallini, state that I have read the foregoing Order and that I know and
18 fully understand the contents hereof; that I have been advised of the right to a hearing
19 and of the right to be represented by counsel in this matter; that I voluntarily and without
20 any force or duress, consent to the entry of this Order, expressly waiving any right to a
21 hearing in this matter; that I understand that the Director reserves the right to take
22 further actions to enforce this Order or to take appropriate action upon discovery of
23 other violations of the Oregon Mortgage Lender Law; and that I will fully comply with the
24 terms and conditions stated herein.

25 I further assure the Director that neither I nor my agents will effect mortgage
26 transactions in Oregon unless such activities are in full compliance with Chapter 59 of
the Oregon Revised Statutes.

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I understand that this Consent Order is a public document.

Dated this 15th day of April, 2008.

By [Signature]
Brian Fallini



[Signature]
Notary Public
for the State of: Oregon
My commission expires: Aug. 22, 2010

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