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5 Attorney for Defendants
AARON KROWNE and
6 KROWNE CONCEPTS, INC.

7
8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SOLANO
10 FAIRFIELD BRANCH

11 LOAN CENTER OF CALIFORNIA, INC.,

12 Plaintiff,

13 v.

14 AARON KROWNE, an Individual d/b/a ML-
IMPLODE.COM and d/b/a
15 MORTGAGEIMPLODE.COM;
KROWNE CONCEPTS, INC., a Nevada
16 Corporation, and DOES 1-50,

17 Defendants.

CASE NO. 029554

ASSIGNED FOR ALL PURPOSES TO
JUDGE R. MICHAEL SMITH
DEPARTMENT 7

**DECLARATION OF AARON
KROWNE IN SUPPORT OF
DEFENDANTS' SPECIAL MOTION TO
STRIKE PLAINTIFF'S CLAIMS**

(CCP § 425.16)

Date: July 23, 2007

Time: 8:30 a.m.

Arbitration Hearing Date: N/A

Discovery Cut Off: N/A

Discovery Motion Cut Off: N/A

Trial Date: None

21
22 I, Aaron Krowne, hereby declare:

23 1. I am one of the defendants in this action and am the President of Krowne Concepts,
24 Inc., another defendant in this action.

25 2. I have personal knowledge of each fact stated in this declaration. If called to testify
26 as to these facts, I would and could do so truthfully.

27 3. I am a graduate of the Virginia Polytechnic Institute (better known as Virginia Tech),
28 where I received Bachelor of Science degrees in Computer Science and Applied Discrete

1 Mathematics in 2001 and a Master of Science Degree in Computer Science in 2003. I currently
2 work as the Head of Digital Library Research for the general libraries at Emory University.

3 4. I presently live in Atlanta, Georgia.

4 5. I established Krowne Concepts in March 2007 to operate the ML-Implode project.
5 Krowne Concepts currently employs three people on a part-time, contract basis, to do research into
6 the mortgage industry, and to update and maintain the ML-Implode web site.

7 6. I have been interested in the area of economics and finance for a number of years. To
8 increase my knowledge in these areas, I have read literally dozens of books by economists and
9 finance professionals (such as Friedrich Hayek, Murray Rothbard, Hernando De Soto, and Benjamin
10 Graham), along with countless articles from journals and web sites dedicated to economics and
11 finance.

12 7. I have been an active participant on the Internet discussing pressing public issues for
13 many years. I have several web sites dedicated to the discussion of issues of public importance. For
14 example, I host one web site dedicated to information about policy concerns with the Federal
15 Reserve, and another web site dedicated to documenting the activities and abuses (especially
16 economic) committed by Venezuelan President Hugo Chavez.

17 8. In addition to hosting these web sites, I have also written articles for iTulip.com, an
18 independent finance and economics web site. In those articles, I discussed a number of economic
19 issues such as banking reserve ratio requirements and Federal Reserve oversight.

20 9. In 2006, I had grown increasingly concerned about the condition of the U.S.
21 economy. I was particularly concerned about the housing finance market, including the norms
22 prevalent in its business environment and the regulatory treatment of the mortgage industry. For that
23 reason, on December 31, 2006, I launched the ML-Implode website.

24 10. The ML-Implode website can be accessed through three web addresses (known as
25 "URLs"): www.ml-implode.com, www.mortgagelenderimplode.com, and
26 www.lenderimplode.com. All of these URLs lead to the same web site at the first address.

27 11. Through my reading and research, I have developed a good understanding of the
28 structure of the home lending market in the United States. At a very high level, there are effectively

1 three types of home lending categories: prime, Alt-A and subprime. Prime lenders lend to
2 individuals with solid credit scores—usually 650 or over. Because these borrowers carry reduced
3 risk, prime lenders are able to offer lower interest rates and standard mortgage products based on full
4 documentation of the borrower’s assets and income.

5 12. Alt-A and subprime lenders both lend to individuals with lower credit scores and less
6 documentation of assets and incomes. These individuals often have incomes that are lower or less
7 reliable than prime borrowers. Loans to such individuals are inherently riskier. Consequently, Alt-A
8 and subprime loans tend to be at interest rates higher than those offered by prime lenders, and tend to
9 be offered on the basis of less documentation.

10 13. For example, Alt-A and subprime lenders will offer loans based on “stated income.”
11 This means that the borrower merely has to tell the mortgage broker how much he earns, and does
12 not have to provide any documentation verifying that he, in fact, does earn that much. This practice
13 has led to many borrowers overstating their incomes. Loans based on “stated” income are also
14 known in the industry as “liar loans.”

15 14. Additionally, Alt-A and subprime lenders tend to offer unusual (sometimes referred
16 to as “exotic”) mortgage products to allow clients to buy more house than they might normally be
17 able to afford with more traditional mortgage products, such as fixed-rate loans. One mortgage product
18 that is very popular in the subprime and Alt-A markets is the “payment option ARM.” This is an
19 adjustable rate mortgage that starts at a very low “teaser” rate. The borrower pays the low rate for
20 some set period of time (months or years). When that initial period ends, the borrower may choose
21 each month among several options how much he wishes to pay: a minimum amount (which is less
22 than the interest amount for that month), an interest-only amount, a fully-amortized amount (interest
23 and principal) based on a 15-year term, and a fully-amortized amount based on a 30-year term.

24 15. If the borrower chooses to pay the minimum amount, then the remainder of the
25 unpaid interest for that month gets tacked on to the principal of the loan, and interest then accrues on
26 the new, higher principal. As a result, borrowers can find themselves in a “negative amortization”
27 situation, where the mortgage balance grows rather than shrinks over time. This may cause or
28 exacerbate the condition of the outstanding mortgage balance being greater than the current market

1 value of the property.

2 16. Furthermore, these adjustable rate mortgages often involve a “sticker shock” to the
3 borrower when the interest rate resets after some period of time (usually around five years). This is
4 because the loan allows for the lender to increase the interest rate without any cap at certain points in
5 time, to bring it up to current rates (plus whatever margin the lender is charging). These resets can
6 result in payments that are as much as double the initial payments made under the teaser rate. When
7 this happens, borrowers are often unable to make the higher payments and can default on their loans.
8 This has led to an increasing number of foreclosures and bad (delinquent) loans held by Alt-A and
9 subprime lenders. As a result, we are currently witnessing a collapse of the subprime mortgage
10 market. This collapse has been acknowledged by, for example, U.S. Senator Charles Schumer.
11 Attached as Exhibit A is a true and correct copy of a press release dated March 28 from the office of
12 Senator Schumer, available at [http://www.schumer.senate.gov/SchumerWebsite/pressroom/
13 record.cfm?id=272752](http://www.schumer.senate.gov/SchumerWebsite/pressroom/record.cfm?id=272752), in which Senator Schumer speaks of the collapsing of the subprime
14 mortgage market and the possibility of 50,000 foreclosures over the next two years in New York
15 State alone.

16 17. In fact, this situation is currently the subject of much concern in Washington, D.C.
17 The Federal Reserve Bank, the Federal Deposit Insurance Company, the Fair Trade Commission,
18 and committees of the House and Senate have all become more involved in attempting to remedy the
19 threat to the economy posed by the collapse of the subprime mortgage market due to exotic loans
20 such as payment option ARMs. Attached hereto as Exhibits B-G are true and correct copies of the
21 following documents:

- 22 • Exhibit B: Federal Reserve System, “Home Equity Lending Market; Notice of
23 Hearings,” downloaded from [http://www.federalreserve.gov/boarddocs/
24 press/bcreg/2007/20070529/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2007/20070529/attachment.pdf);
- 25 • Exhibit C: Les Christie, “Fed looks to rein in ‘liar loans,’” CNNMoney.com,
26 June 14, 2007, downloaded on June 23, 2007, from [http://money.cnn.com/2007/
27 06/14/real_estate/Fed_seeks_input_on_subprime/index.htm?postversion=2007061
28 410](http://money.cnn.com/2007/06/14/real_estate/Fed_seeks_input_on_subprime/index.htm?postversion=2007061410);

- 1 • Exhibit D: Federal Trade Commission Comment on Home Equity Lending
2 Market, September 14, 2006, downloaded from [http://www.federalreserve.gov/
3 SECRS/2006/November/20061121/OP-1253/OP-1253_53_1.pdf](http://www.federalreserve.gov/SECRS/2006/November/20061121/OP-1253/OP-1253_53_1.pdf);
- 4 • Exhibit E: House Committee on Financial Services, “Predatory and Subprime
5 Mortgage Lending Issues,” downloaded on June 23, 2007, from [http://financial
6 services.house.gov/Predatory.html](http://financialservices.house.gov/Predatory.html); Hearing Witness and Testimony Lists from
7 March 27 and April 17, 2007 Hearings of House Committee on Financial
8 Services.
- 9 • Exhibit F: relevant pages from U.S. Senate Joint Economic Committee,
10 “Sheltering Neighborhoods from the Subprime Foreclosure Storm,” April 11,
11 2007, downloaded from [jec.senate.gov/Documents/Reports/subprime
12 11apr2007revised.pdf](http://jec.senate.gov/Documents/Reports/subprime11apr2007revised.pdf);
- 13 • Exhibit G: Federal Deposit Insurance Corporation and Federal Reserve System
14 Joint Press Release, “Agencies Seek Comment on Subprime Mortgage Lending
15 Statement,” March 2, 2007, downloaded from [http://www.fdic.gov/news/news/
16 press/2007/pr07018.html](http://www.fdic.gov/news/news/press/2007/pr07018.html).

17 18. Much of the concern about the Subprime and Alt-A markets has to do with the loan
18 products themselves, and in particular certain types of adjustable rate mortgages, such as the
19 payment option ARM described above.

20 19. Because Alt-A lenders have also been offering payment option ARMs based on
21 “stated income” or other lower documentation standards, there is greater concern now of an
22 impending collapse of Alt-A lenders as well. This concern is reflected, for example, in a March 12,
23 2007 Credit Suisse report entitled “Mortgage Liquidity du Jour: Underestimated No More.”
24 Attached as Exhibit H is a true and correct copy of the relevant pages of that report, which was
25 downloaded from [www.billcara.com/CS%20Mar%2012%202007%20Mortgage%20and%20
26 Housing.pdf](http://www.billcara.com/CS%20Mar%2012%202007%20Mortgage%20and%20Housing.pdf).

27 20. According to the “About” page on their web site, Loan Center of California bills itself
28 as a company that is “specialized in both Alt-A niche loans and more popular payment option ARM

1 product” and that offers “expanded product eligibility.” Attached as Exhibit I is a true and correct
2 copy is the printout of the “About” page from the website of Loan Center of California, downloaded
3 on June 21, 2007 from <http://www.lccjobs.com/about.asp>.

4 21. According to a tutorial that LLC makes available to brokers who wish to sell LCC’s
5 products, LCC offers hybrid payment option ARM loans with low teaser rates to consumer with
6 subprime credit scores of 620, and on a “stated/verified” basis (meaning no documentation to verify
7 income is required). Attached as Exhibit J is a true and correct copy of screen shots taken from a
8 tutorial provided on LCC’s www.rateprice.com and www.enegam.com websites, located at
9 <http://www.enegam.com/tutorials/Submission.swf>.

10 22. The first page of this exhibit, on the right side, shows that a five-year hybrid loan (a
11 type of option ARM) with a 1.50% “teaser” rate that may be available to borrowers with a subprime
12 credit score of only 620 (“FICO min 620”). The loan is available to borrowers who only tell, but do
13 not verify, their incomes. (“Full doc or stated verified doc types”.) (In the lending industry,
14 “stated/verified” means that income may be only “stated” but assets must be “verified.”)
15 Furthermore, the loan allows for “negative amortization”—having a loan principal that is up to 20%
16 greater than the value of the home.

17 23. The second page of Exhibit J shows that the loan described on the first page would
18 have a monthly payment for the five-year fixed period (at the teaser rate) of 1,725.60. After that, the
19 fully amortized payment (principal and interest), for a 30-year term, would be \$3,326.51—almost
20 double the teaser rate. Even interest-only payments are more than 60% higher than the initial
21 payment. This is the type of sticker shock that is spoken of in connection with these mortgages.

22 24. LCC continues to sell and promote payment option ARM mortgages on its
23 www.rateprice.com website, even though this mortgage product has been identified with increased
24 foreclosure rates and the collapsing of the non-prime lending markets. Attached as Exhibit K is a
25 true and correct copy of LLC’s www.rateprice.com website home page, downloaded on June 21,
26 2007 from www.rateprice.com.

27 25. On March 21, 2007, an individual from a mortgage brokerage send an email to me
28 concerning LCC. According to the email, LCC had failed to get funding for loans that it had agreed

1 to underwrite. As a result, LCC refused to honor its agreements with mortgage brokers. Attached as
2 Exhibit L is a true and correct copy of the email sent to me, with the name of the sender redacted as
3 a confidential source.

4 26. On March 23, 2007, Hard Money Loans, an online financial website, also reported
5 that LCC had failed to secure its loan funds. That article strongly implied that LCC was closing its
6 doors and going out of business. Attached hereto as Exhibit M is a true and correct copy of the
7 article, downloaded on June 25, 2007 from <http://www.ihardmoneyloans.com/articles/date/2007/03/>.

8 27. Similarly, the Daily Republic, a Solano County newspaper, reported on March 27,
9 2007 that LCC had laid off 20 of its employees, which was slightly less than 20% of its workforce.
10 Attached as Exhibit N is a true and correct copy of the March 27, 2007 Daily Republic article titled
11 “Loan Company Lays Off 20,” which I downloaded from the Daily Republic website.

12 28. On April 18th, I received an anonymous email from an individual who claimed he had
13 worked at LCC. The email was sent to the email address that I keep on the ML-Implode website.
14 The email echoed what had been reported on the Hard Money Loans website, as well as the
15 information I had received in the email to me dated March 21st (Exhibit L.) I thus believed the email
16 to be reliable and I posted it on two locations: at the ML-Implode website and on the discussion
17 board Autodogmatic.com, which is linked with the ML-Implode website.

18 29. Attached as Exhibit O is a true and correct copy of the ML-Implode web page as it
19 appeared on April 18, 2007, as produced to my attorney by counsel for LCC. The relevant portion
20 appears at page 4 of this exhibit.

21 30. Attached as Exhibit P is a true and correct copy of my posting of the anonymous
22 email on the Autodogmatic.com website on April 18, 2007, downloaded from [http://www.
23 autodogmatic.com/forum/viewtopic.php?t=485](http://www.autodogmatic.com/forum/viewtopic.php?t=485).

24 31. I have no business relationship with LCC. From what I understand, LCC is a
25 privately held company, and therefore does not have publicly traded stock. I have never purchased
26 nor sold any interest in LCC. Only once have I taken a short stock position in a lender that was
27 listed on the website as “imploded” or “ailing.” In that case, I did not make any mention of the
28 lender on my website until the same news had been reported elsewhere by others.

