

CONSENT ORDER SUMMARY – Case Number C-15-1732

Respondent Name:	Derrick William Krout
NMLS Number:	81043
Order Number:	C-15-1732-16-CO01.
Effective Date:	June 21, 2016
License Effect:	

Not Apply Until:	June 22, 2021
Not Eligible Until:	N/A
Prohibition/Ban Until:	N/A

Investigation Costs	\$500	Due:	Paid <input checked="" type="checkbox"/> Y <input type="checkbox"/> N	Date:
Fine	\$500	Due:	Paid <input checked="" type="checkbox"/> Y <input type="checkbox"/> N	Date:
Assessment(s)	\$0	Due	Paid <input type="checkbox"/> Y <input type="checkbox"/> N	Date
Restitution	\$0	Due	Paid <input type="checkbox"/> Y <input type="checkbox"/> N	Date
Judgment	\$0	Due	Paid <input type="checkbox"/> Y <input type="checkbox"/> N	Date

Comments:

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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF CONSUMER SERVICES**

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IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Consumer Loan Act of Washington by:

No: C-15-1732-16-CO01

CONSENT ORDER

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DERRICK W. KROUT, NMLS No. 81043,

Respondent.

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COME NOW the Director of the Department of Financial Institutions (Director), through his designee Charles E. Clark, Division Director, Division of Consumer Services, and Derrick W. Krout (Respondent Krout), by and through his attorney, J. Steven Lovejoy, and finding that the issues raised in the above-captioned matter may be economically and efficiently settled, agree to the entry of this Consent Order. This Consent Order is entered pursuant to chapter 31.04 of the Revised Code of Washington (RCW), and RCW 34.05.060 of the Administrative Procedure Act, based on the following:

AGREEMENT AND ORDER

The Department of Financial Institutions, Division of Consumer Services (Department) and Respondent Krout have agreed upon a basis for resolution of the matters alleged in the attached Statement of Charges No. C-15-1732-16-SC01 (Statement of Charges), entered February 25, 2016. Pursuant to chapter 31.04 RCW, the Consumer Loan Act (Act), and RCW 34.05.060 of the Administrative Procedure Act, Respondent Krout hereby agrees to the Department's entry of this Consent Order. The parties intend this Consent Order to fully resolve the Statement of Charges.

Based upon the foregoing:

A. Jurisdiction. It is AGREED that the Department has jurisdiction over the subject matter of the activities discussed herein.

B. Waiver of Hearing. It is AGREED that Respondent Krout has been informed of the right to a hearing before an administrative law judge, and hereby waives his right to a hearing and all administrative and judicial review of the issues raised in this matter, or of the resolution reached herein. Accordingly, by his

1 signature below, and by the signature of his authorized representative below, Respondent Krout withdraws his
2 appeal to the Office of Administrative Hearings.

3 **C. Cooperation.** The Department acknowledges that Respondent Krout voluntarily cooperated with
4 the authorities who conducted the investigation of New Day, advising them that New Day employees in the
5 compliance department had been completing continuing education courses and related tests on behalf of New
6 Day's mortgage loan originators, and explaining to the investigators that some continuing education courses
7 and related tests were completed on his behalf. Based in part on that investigation, the Department entered
8 into a multi-state settlement with New Day on April 13, 2015.

9 **D. No Admission or Denial of Violations.** Respondent Krout neither admits nor denies the Factual
10 Allegations in the Statement of Charges.

11 **E. Application for License.** It is AGREED that, for a period of five years from the date of entry of
12 this Consent Order, Respondent Krout shall not apply to the Department for a mortgage loan originator
13 license under any name. It is further AGREED that, should Respondent Krout apply to the Department for a
14 mortgage loan originator license under any name at any time later than five years from the date of entry of
15 this Consent Order, Respondent Krout shall be required to meet all application requirements then in effect.

16 **F. Fine.** It is AGREED that Respondent Krout shall pay a fine to the Department in the amount of
17 \$500.00 upon entry of this Consent Order.

18 **G. Investigation Fee.** It is AGREED that Respondent Krout shall pay to the Department an
19 investigation fee of \$500 upon entry of this Consent Order. The Fine and Investigation Fee shall be paid
20 together in one \$1,000 cashier's check made payable to the "Washington State Treasurer."

21 **H. Non-Compliance with Order.** It is AGREED that Respondent Krout understands that failure to
22 abide by the terms and conditions of this Consent Order may result in further legal action by the Director. In
23 the event of such legal action, Respondent Krout may be responsible to reimburse the Director for the cost
24 incurred in pursuing such action, including attorney fees.

25 **I. Voluntarily Entered.** It is AGREED that Respondent Krout has voluntarily entered into this
Consent Order, which is effective when signed by the Director's designee.

1 J. Completely Read, Understood, and Agreed. It is AGREED that Respondent Krout has read this
2 Consent Order in its entirety and fully understands and agrees to all of the same.

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4 **BY RESPONDENT:**

5 [Redacted Signature] 6/7/2016
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7 Derrick William Krout, NMLS No. 81043

8 **Approved for Entry:**

9 [Redacted Signature] 6/9/2016
10 J. Steven Lovejoy, Esq.
11 Shumaker & Williams, P.C.
12 Attorneys for Respondent Derrick William Krout

13 **DO NOT WRITE BELOW THIS LINE**

14 THIS ORDER ENTERED THIS 21st DAY OF JUNE, 2016.



15 [Redacted Signature]
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17 CHARLES E. CLARK
18 Director, Division of Consumer Services
19 Department of Financial Institutions

20 Presented by:
21 [Redacted Signature]
22 ANTHONY W. CARTER
23 Senior Financial Legal Examiner

20 Approved by:
21 [Redacted Signature]
22 STEVEN C. SHERMAN
23 Chief of Enforcement

1 **1.2 Employment with New Day Financial, LLC:** Respondent Krout began working as a MLO for
2 New Day in 2008. Respondent Krout was promoted to Vice President of Sales in 2011, and was the
3 head of New Day's Television Department when he was terminated for-cause on or about November
4 19, 2013.

5 **1.3 Multi-State Investigation:** On April 13, 2015, the Department entered into a Settlement
6 Agreement and Consent Order (Settlement Agreement) with New Day in resolution of an investigation
7 into allegations that New Day had allowed employees to cheat on state and federal continuing education
8 (CE) requirements established by the National Mortgage Licensing System (NMLS). The Settlement
9 Agreement recites that in violation of state and federal law, New Day's owners, managers, and
10 employees had engaged employees working for New Day's Compliance Department to sit through CE
11 courses and take the associated CE tests for MLOs. In settlement of the matter, New Day agreed to pay
12 more than five million dollars in civil penalties, reform its business practices with respect to CE
13 compliance, and terminate certain key personnel.

14 **1.4 NMLS Event Explanation Detail.** Respondent Krout has disclosed his termination for cause
15 from New Day on NMLS, and provided an Event Explanation Detail as required. Respondent Krout
16 states that New Day's violations of the NMLS CE course and testing requirements was widely known
17 throughout New Day; that he was aware of the violations; and that New Day employees completed CE
18 courses and/or tests on his behalf.

19 **1.5 Maryland Investigation:** During July 2014, examiners with the Maryland State Department of
20 Labor, Licensing, and Regulations reviewed New Day's internal investigation into the CE cheating
21 allegations. The examiners identified an employee who had been paid by MLOs for taking their CE
22 courses and tests. The Maryland examiners reported that in order for the employee to complete the CE
23 requirements for a MLO, the MLO would need to provide his or her CE logon identification, password,
24 and answers to personal security questions. On July 6, 2011, Respondent Krout provided that exact

1 information to the New Day employee identified by the Maryland examiners as having been paid to
2 complete the CE requirements for MLOs. During a 2014 interview with the Maryland examiners,
3 Respondent Krout admitted to paying a New Day employee to take CE tests on his behalf. A review of
4 Respondent Krout's email account revealed that Respondent Krout offered to pay the employee \$50 to
5 take the New Jersey CE test on his behalf.

6 **1.6 Washington Investigation.** On July 16, 2015, the Department requested that New Day identify
7 whether Respondent Krout had been terminated due to his knowledge of, or participation in, the
8 conduct at issue in the Settlement Agreement. In response, on September 18, 2015, New Day provided
9 the Department with information indicating that Respondent Krout had been terminated. The
10 Department also requested all employment documents for Respondent Krout related to the Settlement
11 Agreement. New Day produced a copy of a Separation Agreement and Release (Separation/Release)
12 between Respondent Krout and New Day. The second paragraph of the Separation/Release states that
13 after investigation, New Day had determined to end its employment relationship with Respondent Krout
14 for cause.

16 II. GROUNDS FOR ENTRY OF ORDER

17 **2.1 Definition of Mortgage Loan Originator.** Pursuant to RCW 31.45.015(17)(a) and
18 WAC 208-620-010, "Mortgage Loan Originator" means in part an individual who for compensation or
19 gain (i) takes a residential mortgage loan application, or (ii) offers or negotiates terms of a residential
20 mortgage loan.

21 **2.2 Continuing Education Requirements.** Pursuant to RCW 31.45.267, a licensed MLO must
22 annually complete a minimum of eight hours of continuing education approved by NMLS.

23 **2.3 Prohibited Acts.** Based on the Factual Allegations set forth in Section I above, Respondent
24 Krout is in apparent violation of RCW 31.04.027(1), for directly or indirectly employing any scheme,

1 device, or artifice to defraud or mislead any person; (2), for directly or indirectly engaging in any unfair
2 or deceptive practice toward any person; and (13), for violating any applicable state or federal law
3 relating to the activities governed by the Act.

4 5 **III. AUTHORITY TO IMPOSE SANCTIONS**

6 **3.1 Authority to Prohibit from Industry.** Pursuant to RCW 31.04.093(6), the Director may issue an
7 order prohibiting from participation in the affairs of any licensee any person subject to the Act for any
8 violation of RCW 31.04.027.

9 **3.2 Authority to Collect Investigation Fees.** Pursuant to RCW 31.04.145(3), every licensee
10 investigated by the Director or the Director's designee must pay to the Director the cost of the
11 investigation as determined by rule. Pursuant to WAC 208-620-590, the investigation fee is calculated
12 at the rate of \$69.01 per staff hour devoted to the investigation.

13 **3.3 Authority to Recover Costs and Expenses.** Pursuant to RCW 31.04.205(2), the Director may
14 recover the state's costs and expenses for prosecuting violations of the Act, including for staff time
15 spent preparing for and attending administrative hearings, and reasonable attorneys' fees.

16 **IV. NOTICE OF INTENT TO ENTER ORDER**

17 Respondent Krout's violations of the Act as set forth in the above Factual Allegations, Grounds
18 for Entry of Order, and Authority to Impose Sanctions, constitute a basis for the entry of an Order under
19 the Act. Therefore, it is the Director's intent to ORDER that:

20 **4.1** Respondent Derrick William Krout be prohibited from participating in the affairs
21 of any licensee, or any person subject to the Act, for a period of ten (10) years;

22 **4.2** Respondent Derrick William Krout pay the Department the investigation fees
23 incurred in investigating this matter, which as of the date of this Statement of
24 Charges totals \$175.53; and

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