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11
 12 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
 13 OF THE STATE OF CALIFORNIA

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|-------------------------------|---|---|
| In the Matter of: |) | FILE NO.: 96DBO-109316 and 963-2116 |
| |) | |
| |) | |
| THE COMMISSIONER OF FINANCIAL |) | |
| PROTECTION AND INNOVATION, |) | |
| |) | ORDER TO DISCONTINUE ESCROW |
| |) | ACTIVITIES PURSUANT TO FINANCIAL |
| Complainant, |) | CODE SECTION 17415 |
| |) | |
| v. |) | |
| |) | |
| FOUNTAIN VALLEY ESCROW, INC., |) | |
| INTEGRITY ESCROW, INC., |) | |
| |) | |
| Respondents. |) | |

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 26 TO: FOUNTAIN VALLEY ESCROW, INC.
 27 17155 Newhope Street, Suite N
 28 Fountain Valley, California 92708

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INTEGRITY ESCROW, INC.
17155 Newhope Street, Suite N
Fountain Valley, California 92708

CITY NATIONAL BANK
555 South Flower Street 19th Floor
Los Angeles, California 90071

THE COMMISSIONER OF FINANCIAL PROTECTION AND INNOVATION FINDS

THAT:

1. Tom Quyen Nguyen, also known as Toan Quyen Nguyen, (Nguyen) is the sole owner of Fountain Valley Escrow, Inc. (FVE), formerly known as Integrity II Escrow, Inc. Nguyen and Tuan Ho each have 50% ownership in Integrity Escrow, Inc. (IE), which Nguyen also manages.

2. Both FVE and IE are licensed as escrow agents under the California Escrow Law (Escrow Law) (Fin. Code, § 17000 et seq.), with license numbers 96DBO-109316 and 963-2116, respectively. Both are also located at 17155 Newhope Street, Suite N, Fountain Valley, California 92708.

3. The Department of Financial Protection and Innovation (Department) commenced a special examination of FVE on November 21, 2023, after the company disclosed an alleged wire hack. That special examination resulted in the findings below.

4. On August 30, 2022, unknown actor(s), without authorization from FVE, submitted five wire transfers, totaling \$1,912,902.20, from FVE’s trust account with City National Bank (CNB) to external bank accounts belonging to individuals purportedly with no connection to FVE or its business.

5. The total amount wired out of FVE’s trust account was \$1,912,902.20. CNB was able to recover \$1,432,266.32. The list of funds transferred out of FVE’s trust account is as follows:

| <u>Date of Transfer</u> | <u>Amount</u> | <u>Beneficiary Bank</u> | <u>Beneficiary Party</u> |
|-------------------------|------------------------------|---------------------------|--------------------------|
| 8/30/2022 | \$ 400,500.75 | Wells Fargo Bank | Laura Gates |
| 8/30/2022 | \$473,700.60 | Wells Fargo Bank | Laura Gates |
| 8/30/2022 | \$495,200.45 | Wells Fargo Bank | Laura Gates |
| 8/30/2022 | \$498,500.40 | Wells Fargo Bank | Linda King |
| 8/30/2022 | \$45,500.00 | Navy Federal Credit Union | Barbara Scherff |
| Total | <u>\$1,912,902.20</u> | | |

1 6. The unauthorized wire transfers above resulted in a trust account shortage for FVE.
2 As of today, FVE’s trust account shows a shortage of \$480,635.88.

3 7. As of October 31, 2023, FVE failed to meet the tangible net worth requirements
4 mandated by section 17210 of the Financial Code, wherein all escrow licensees are required to
5 maintain, at all times, a tangible net worth of at least \$50,000.00. FVE maintains two bank accounts,
6 a general account, and a trust account. The special examination found that following the
7 unauthorized wire transfers, the total bank balance between FVE’s trust and general accounts was
8 approximately \$439,242.00 and \$15,440.61 respectively, as of February 29, 2024. As of October 31,
9 2023, FVE had a tangible net worth deficiency of \$13,017.54.

10 8. FVE failed to maintain its books and records in accordance with the Escrow Law in
11 that it failed to maintain current financial statements and general ledgers for the general bank
12 account, in violation of California Code of Regulations, title 10, section 1732.3. The general ledger
13 and financial statements should have been posted and prepared up through November 30, 2023.

14 9. Upon inquiry by the Department, Nguyen reported that on or before August 30, 2022,
15 he, an FVE employee, or both, fell victim to phishing attempts by way of electronic mail. He
16 claimed that unknown actor(s) then gained access to FVE’s business operation system, including the
17 company phone number and email addresses. Nguyen represented that the actor(s) prevented FVE
18 staff from receiving any incoming calls and rerouted emails from CNB, preventing FVE from
19 receiving any notifications about the unauthorized wire transfers. He reported that shortly thereafter,
20 CNB informed FVE that five wires from FVE’s trust account were initiated and processed.

21 10. On August 30, 2022—the same day as the wire hack—and to ameliorate the shortage
22 in the trust fund account for FVE, IE authorized a transfer of \$500,000 from its own trust account to
23 FVE’s. This transfer was not authorized by any authorized escrow instructions, and the funds
24 belonged to clients of IE. As a result of this transfer, IE experienced its own trust account shortage of
25 \$500,000 from August 30, 2022, through February 13, 2024.

26 11. Nguyen represented that in or around November 2023, FVE reported the wire hack to
27 the Escrow Agent Fidelity Corporation (EAFC). He further claims that EAFC declined to cover the
28 trust shortage in FVE’s trust account because FVE’s policy with EAFC only covered employee theft.

1 12. FVE also filed a claim with its insurance company concerning the wire hack to
2 determine whether FVE could be reimbursed for the lost funds. The insurance claim specialist for
3 FVE stated that because FVE's policy does not cover actual loss, the insurance company paid only
4 \$38,423.75 directly to the privacy counsel for and the forensic investigation into the wire hack.

5 13. Nguyen claimed that after the August 30, 2022, wire hack, FVE opened a new trust
6 account, though he did not elaborate on the purpose for doing so.

7 14. On November 30, 2023, the Department emailed a demand letter to Nguyen and FVE,
8 to replenish FVE's current trust account and provide proof of the new trust account for FVE. The
9 next day, Nguyen responded, claiming that FVE is not in a position to replenish the trust account; no
10 escrow accounts were compromised or otherwise impacted as a result of the August 30, 2022, wire
11 hack; and he was exploring a plan to replenish FVE's trust account with funds from its general
12 account, beginning with \$5,000.00 per month. He also failed to provide the requested proof.

13 15. On December 11, 2023, the Department sent a follow-up demand letter, by way of
14 electronic and certified mail, to Nguyen and FVE to replenish FVE's current trust account and
15 provide proof of the new trust account for FVE. Again, Nguyen and FVE did neither.

16 16. On February 12, 2024, the Department emailed a demand letter to IE, informing IE
17 how the investigation of FVE showed that on August 30, 2022, the day of the wire hack, IE
18 transferred \$500,000 from the IE trust account to the FVE trust account. FVE and IE have complied
19 with the demand letter and the \$500,000 has been transferred back to IE.

20 17. On March 21, 2024, Nguyen informed the Department that FVE has closed down its
21 business at 17155 Newhope Street, Suite N, Fountain Valley, California 92708, but its escrow agent
22 license remains. IE maintains an inactive escrow license with the Department.

23 18. The Department has received multiple complaints against FVE following the hack.
24 One of the complaints involved three escrows with balances each due to a different buyer as
25 described below. FVE has informed the buyers and their real estate agents about the hack, the funds
26 shortage in FVE's trust account, and the plan for FVE to cease operations. The complaint remains
27 unresolved because FVE does not have the funds to issue refunds.

28 a. Escrow #1 – initial deposit of \$27,1500.00

1 b. Escrow #2 – initial deposit \$19,100.00

2 c. Escrow #3 – initial deposit \$10,000.00

3 Based upon the foregoing, FVE and IE are both conducting escrow businesses in such an
4 unsafe or injurious manner as to render further operations hazardous to the public or to customers.

5 Financial Code section 17415 provides as follows:

6 (a) If the commissioner, as a result of any examination or from any
7 report made to him or her, shall find that any person subject to this
8 division is in an insolvent condition, is conducting escrow business in
9 such an unsafe or injurious manner as to render further operations
10 hazardous to the public or to customers, has failed to comply with the
11 provisions of section 17212.1 or 17414.1, has permitted its tangible net
12 worth to be lower than the minimum required by law, has failed to
13 maintain its liquid assets in excess of current liabilities as set forth in
14 Section 17210, or has failed to comply with the bonding requirements
15 of Chapter 2 (commencing with Section 17200) of this division, the
16 commissioner may, by an order addressed to and served by registered
17 or certified mail or personal service on such person and on any other
18 person having in his or her possession or control any escrowed funds,
19 trust funds or other property deposited in escrow with said person,
20 direct discontinuance of the disbursement of trust funds by the parties
21 or any of them, the receipt of trust funds, the delivery or recording of
22 documents received in escrow, or other business operations. No
23 person having in his or her possession any of these funds or documents
24 shall be liable for failure to comply with the order unless he or she has
25 received written notice of the order. Subject to subdivision (b), the
26 order shall remain in effect until set aside by the commissioner in
27 whole or in part, the person is the subject of an order for relief in
28 bankruptcy, or pursuant to Chapter 6 (commencing with Section
17621) of this division the commissioner has assumed possession of
the escrow agent.

(b) Within 15 days from the date of an order pursuant to subdivision
(a), the person may request a hearing under the Administrative
Procedure Act, Chapter 5 (commencing with Section 11500) of
Division 3 of Title 2 of the Government Code. Upon receipt of a
request, the matter shall be set for hearing to commence within 30
days after such receipt unless the person subject to this division
consents to a later date. If no hearing is requested within 15 days after
the mailing or service of such notice and none is ordered by the
commissioner, the failure to request a hearing shall constitute a waiver
of the right to a hearing. Neither the request for a hearing nor the
hearing itself shall stay the order issued by the commissioner under

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subdivision (a).

NOW, BASED UPON THE FOREGOING, AND GOOD CAUSE APPEARING
THEREFORE, it is hereby ORDERED, under the provisions of Financial Code section 17415, that
FVE, IE, and any person having in his or her possession any escrow or trust funds or general account
funds to discontinue immediately the receipt or disbursement of any such funds, documents or other
property in its possession, custody, or control.

This order is to remain in full force and effect until further order of the Commissioner.

Dated: May 10, 2024

CLOTHILDE V. HEWLETT
Commissioner of Financial Protection and Innovation



By _____
MARY ANN SMITH
Deputy Commissioner
Enforcement Division