

**SETTLEMENT AGREEMENT BETWEEN THE UNITED STATES OF AMERICA STEVEN J. BAUM, P.C. AND PILLAR PROCESSING, LLC**

This Settlement Agreement (“Agreement”) is entered into by the United States (the “Government”) and Steven J. Baum, P.C. (“Baum”) and Pillar Processing, LLC (“Pillar”) to resolve the United States’ investigation, conducted pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, 12 U.S.C. § 1833a (“FIRREA”), into the mortgage foreclosure-related practices of Baum. Pursuant to this Agreement, Baum hereby agrees to the following policies, procedures and terms, and to instruct all employees of Pillar to adhere to the following policies, procedures and terms, in connection with any mortgage foreclosure action, any application in bankruptcy court to lift the automatic stay for purposes of initiating or continuing a mortgage foreclosure action, or any other action asserting rights or seeking remedies relating to any mortgage (“Mortgage Foreclosure Action”) filed after the effective date of this Agreement:

**AGREEMENT**

**I. BACKGROUND**

1. Steven J. Baum, PC, is a law firm with its principal place of business at 220 Northpointe Parkway, Suite G, Amherst, New York 14228. Baum is one of the largest volume mortgage foreclosure firms in New York. Pillar Processing, LLC is a New York State licensed Professional Employment Organization and provides administrative services to Baum.

2. Mortgage Electronic Registration Systems, Inc. (“MERS”) is a privately held Company that operates an electronic registry system designed to track servicing rights and ownership of mortgage loans in the United States. Mortgage lenders and other entities, known as MERS members, subscribe to the MERS system and pay annual fees for the electronic processing and tracking of ownership and transfers of ownership.



3. The Civil Frauds Unit of the United States Attorney's Office for the Southern District of New York has been investigating whether Baum has improperly initiated and pursued foreclosure proceedings against homeowners and, specifically, whether Baum knowingly or recklessly filed misleading pleadings, affidavits, and mortgage assignments in the state and federal courts in New York on behalf of its clients. Baum acknowledges that it occasionally made inadvertent errors in its legal filings in state and federal court, which it attributes to human error in light of the high volume of mortgage defaults and foreclosures throughout the State of New York in the wake of the national subprime mortgage crisis.

4. This Agreement does not constitute a finding by any court or agency that Baum has engaged in any unlawful practice or wrongdoing of any kind.

5. To resolve this matter without the cost of further investigation or the need for litigation, the parties to this Agreement have agreed to the following terms.

## II. CHANGE IN PRACTICES

6. Baum shall not file any pleading in a Mortgage Foreclosure Action asserting that its client is the owner, holder, or servicer of a mortgage and note unless it: (i) has reviewed the original promissory note in question; or (ii) has received a copy of the promissory note from its client or document custodian accompanied by a notarized affidavit signed by the client or document custodian attesting that upon the affiant's personal review the client or document custodian has actual or constructive possession of the original promissory note and that the copy is a true and correct copy of the original ("Affidavit of True Copy"); or (iii) in a case where the original note has been lost, has received an executed affidavit from its client attesting to that fact and describing the due diligence procedures that were followed in an effort to search for the original note, and signed by the person who conducted or supervised the search ("Lost Note

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Affidavit"). Baum shall reference review of the original note, Statement of True Copy, or Lost Note Affidavit in any initial pleading before a court in a Mortgage Foreclosure Action filed after the effective date of this agreement.

7. Where an assignment of mortgage is necessary to properly assert standing in any Mortgage Foreclosure Action, Baum shall ensure that the assignee of that assignment is the latest holder of the promissory note, or its authorized agent. Baum shall additionally ensure that the promissory note is properly endorsed, or is accompanied by any necessary allonge(s).

8. Baum shall retain the following in its written files for each particular client or case in which Baum has filed Mortgage Foreclosure Action: a copy of (a) the note; (b) Affidavit of True Copy; or (c) Lost Note Affidavit (if applicable). Such documents shall be maintained for a period of three (3) years from the date the Mortgage Foreclosure Action is filed.

9. Baum shall designate partner(s), shareholder(s), or attorneys with a minimum of five (5) years of experience in representing banks or servicers in civil litigation or bankruptcy practice (the "Designee(s)") to supervise the review of all pleadings and documents related to Mortgage Foreclosure Actions before they are filed in court. The Designee(s) shall supervise the review of the information provided from the client regarding the delinquency of the account in order to reasonably verify the accuracy of the sums sought and priority claimed in any proposed proofs of claims, the lack of equity in the property if such lack of equity is alleged as a basis for a motion for relief, and the accuracy of the allegations of the Mortgage Foreclosure Action including, but not limited to, any allegations concerning the client's standing to bring the motion, or the delinquency of the account. Baum shall continue to retain the Designee(s) to perform the services described in this paragraph for up to three (3) years from the date of this agreement, unless they are replaced with a different Designee. Baum shall advise the Government of the



name(s) of the Designee(s) and shall advise the Government should those Designee(s) be replaced with a different attorney.

10. Supervision of the review set forth above shall be accomplished in the following manner:

- a. The Bankruptcy and Litigation departments shall each be overseen by a respective Managing Attorney, who will direct the procedures, training, and delegation of work within each of those respective departments. In addition, Baum shall designate a Lead Bankruptcy Attorney and a Lead Litigation Attorney who will report to the respective Managing Attorney. These Lead Attorneys shall be responsible for training the Bankruptcy and Litigation attorneys employed by Baum. The training shall be tailored to the experience level of the associate and shall include, at a minimum, in-depth bankruptcy or litigation training.
- b. New Baum associates shall be assigned to the respective training program for a period of 12 months (for attorneys with at least 3 years of civil litigation experience) or 24 months (for attorneys with less than 3 years of civil litigation experience). The training shall include, but is not limited to, an overview of the foreclosure process in New York State, the litigation procedures expected at Baum, frequently litigated issues and responses, including standing, as well as typical bankruptcy or foreclosure concepts. In addition, weekly meetings shall be held to gauge progress and address any concerns that may exist, throughout the completion of the training program. All papers and pleadings drafted by new Baum associates shall be reviewed



by the respective Lead Attorney for a minimum of three (3) months, and until such time as the respective Lead Attorney and Managing Attorney agree that the new Baum associate is able to independently handle the same.

11. With respect to any client of Baum that has entered into a settlement with the Office of the Comptroller of Currency ("OCC") concerning servicing standards ("OCC Settlements"), Baum shall form a Compliance Committee of not less than three (3) attorneys, which committee shall include the firm's Compliance Attorney, in order to ensure that the firm complies, in each Mortgage Foreclosure Action, with the provisions of such OCC Settlements that govern the standards for affidavits and documentation used in Mortgage Foreclosure Actions. Further, Baum shall not, in the course of its representation of any client, take any action inconsistent with the terms of an applicable OCC Settlement.

12. If, within three (3) years of the date of this Agreement, any client of Baum enters into an agreement with any state or federal regulator concerning the standards for affidavits and documentation necessary to file Mortgage Foreclosure Actions, said Compliance Committee shall promulgate policies and procedures to ensure that Baum adheres with all applicable terms of such agreement as a precondition of continuing to represent such client, to the extent permitted by the New York Rules of Professional Conduct.

13. In a bankruptcy court action in which Baum has filed an application to lift the automatic stay, if a debtor or other party in that action files a motion, letter, adversary complaint or other pleading or document after the effective date of this agreement alleging that the information contained in an application to lift the automatic stay with regard to standing is incorrect or improper, Baum shall notify the Government and the U.S. Trustee within three (3) business days after Baum receives notice, in accordance with the written notice procedure set



forth below. Notwithstanding the foregoing, the Baum firm shall have no duty to provide notification to the Government or the U.S. Trustee of any general denial with regard to standing that does not state a basis for the objection. This procedure is not intended to replace any notice requirements under the applicable rules of the Federal Rules of Bankruptcy Procedure.

14. Baum shall no longer permit anyone employed by or contracted by Baum to execute any assignment of a mortgage as an officer, director, employee, agent or other representative of MERSCORP, Inc. and/or Mortgage Electronic Registration System, Inc.

15. Baum shall provide the following notification:

- a. In any pending foreclosure action where an application for a judgment of foreclosure has not been submitted to a court, if Baum has filed an assignment of mortgage as a corporate officer of MERS, Baum shall disclose that fact to the court in the application for a judgment of foreclosure, or earlier. Such disclosure shall not be required if the Baum firm does not file a proposed judgment of foreclosure (e.g., because another law firm has been substituted as counsel for the matter prior to the filing of a proposed judgment of foreclosure, because the action is dismissed, etc.).
- b. For motions for relief from the automatic stay filed after the effective date of this Agreement, if Baum files an assignment of mortgage as a corporate officer of MERS, Baum shall disclose that fact to the applicable court at the time it files a motion for relief from the automatic stay for purposes of foreclosure.
- c. In any motions for relief from the automatic stay that are currently pending before the court where no order has been issued by the court, if Baum has

filed an assignment of mortgage signed by a Baum employee as a corporate officer of MERS, Baum shall disclose that fact to the applicable court prior to the return date of the motion.

16. Baum shall comply in all respects with Local Bankruptcy Rule 4001-1 of the United States Bankruptcy Court for the Southern District of New York with respect to seeking relief from the automatic stay pursuant to 11 U.S.C. § 362 in cases filed by individuals concerning real property or cooperative apartments (a "Lift Stay Motion").

17. Baum waives all rights to seek judicial review of, or otherwise challenge or contest the validity of, this Agreement, and waives any right that may arise under the Equal Access to Justice Act, 28 U.S.C. § 2412.

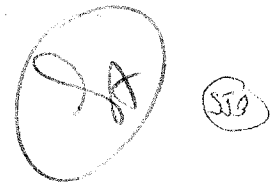
18. This Agreement shall be binding on Baum, its successors, officers, agents, employees, shareholders, partners and others to the extent provided in Fed. R. Civ. P. 65(d) and Fed. R. Bankr. P. 7065.

19. For the purposes of this Agreement, Baum shall, unless otherwise directed by the United States Attorney, mail all written notifications to the Government by overnight mail or email to:

Assistant U.S. Attorney Pierre Armand  
United States Attorney's Office  
86 Chambers Street, 3<sup>rd</sup> Floor  
New York, NY 10007  
[Pierre.Armand@usdoj.gov](mailto:Pierre.Armand@usdoj.gov)

All written notifications to the United States Trustee shall be sent by overnight mail or email to:

Tracy Hope Davis  
United States Trustee  
Attn: Linda Riffkin, Assistant United States Trustee  
Greg Zipes, Trial Attorney  
United States Trustee's Office



33 Whitehall Street, 21st floor  
New York, NY 10004  
Greg.zipes@usdoj.gov

All written notifications to Baum under this agreement shall be sent by overnight mail to:

Steven J. Baum, Esq.  
PERSONAL AND CONFIDENTIAL  
Steven J. Baum, P.C.  
220 Northpointe Parkway, Suite G  
Amherst, NY 14228

with a copy to:

Amy Polowy, Esq.  
PERSONAL AND CONFIDENTIAL  
Steven J. Baum, P.C.  
220 Northpointe Parkway, Suite G  
Amherst, NY 14228

### III. MONETARY PAYMENT

20. Within fifteen (15) business days of the effective date of this Agreement Baum shall make a payment of two million dollars (\$2,000,000) by electronic funds transfer pursuant to written instructions to be provided by the United States Attorney's Office, Southern District of New York (the "Payment"). The United States accepts the Payment in full and complete satisfaction of any and all claims for civil penalties that the United States may have under FIRREA against either Baum, Pillar, or any partner or employee of Baum or Pillar, on account of any Mortgage Foreclosure Action filed in the state or federal court within the State of New York by Baum up until the date of this Agreement (the "Covered Conduct").

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#### IV. SCOPE OF RELEASE

21. Notwithstanding any other term of this Agreement, the following potential claims of the United States, and any agency or entity thereof, are specifically reserved and are not released:

- a. Any civil, criminal or administrative liability arising under Title 26, U.S. Code (Internal Revenue Code);
- b. Any criminal liability;
- c. Any administrative liability;
- d. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;
- e. Any liability based upon such obligations as are created by this Agreement; and
- f. Any liability to the United States of any person or entity, including but not limited to any joint tortfeasor, except for the former and current partners and employees of Baum and Pillar, who are expressly released by this Agreement.

22. Except with respect to the matters expressly and specifically articulated in this Agreement, nothing in this Agreement shall preclude the United States Trustee from following the United States Trustee's statutory duty set forth in 28 U.S.C. § 586 in connection with bankruptcy proceedings in which Baum employees appear.

23. Nothing in this agreement shall be construed as requiring Baum to violate any court order, administrative rule, or any federal or state law or regulation.



**V. GENERAL PROVISIONS**

24. The effective date of this Agreement shall be thirty days after the last date on which is it signed by counsel for the parties (the "Effective Date").

25. This Agreement shall be in effect for three (3) years from the Effective Date (the "Operative Time Period").

26. Should the Government determine in good faith and in its sole discretion during the Operative Time Period that Baum has knowingly or recklessly breached any material provision of this Agreement, the Government may seek an Order from the District Court for the Southern District of New York finding Baum in breach for any such violation and may seek such remedies as the court in its discretion finds to be warranted. However, prior to commencing any such action, the Government shall provide written notice to Baum of the alleged breach and provide the Baum with a two-week period from receipt of such notice in which to make a presentation to the Office to demonstrate that no breach occurred, or, to the extent applicable, that the breach was not material or knowingly, recklessly or willfully committed or has been cured. Baum shall not contest the jurisdiction of the court or the venue where a proceeding is brought to enforce the terms of this Agreement pursuant to 28 U.S.C. § 1345 in the District Court for the Southern District of New York. Nor shall Baum assert that any potential claims of the United States arising from conduct related to this Agreement are barred by any applicable statute of limitations.

27. Baum agrees that, in the event that the District Court determines that Baum has violated any provision of this Agreement during the Operative Time Period, a one-year extension of the period may be imposed in the sole discretion of the Government, and, in the event of

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additional violations, such additional one-year extensions as appropriate, but in no event shall the total term of this Agreement exceed five (5) years.

28. This Agreement is not intended to supersede or replace any additional action or remedy that the Court may choose to impose in connection with this or any other case.

29. Nothing in this Agreement limits the rights of any party other than the United States to pursue any legal right or remedy it may have against Baum.

30. Each party to this Agreement shall bear its own costs and attorneys' fees associated with this Agreement.

Handwritten signature and initials. The signature is enclosed in a circle, and the initials "Jro" are written in a small circle to the right.

31. The parties acknowledge that this agreement is a public document and that the United States shall provide a copy of this Agreement to any person upon request.

32. The parties have agreed to the entry of this Agreement, as indicated by the signatures below.

Dated: New York, New York  
October 6, 2011

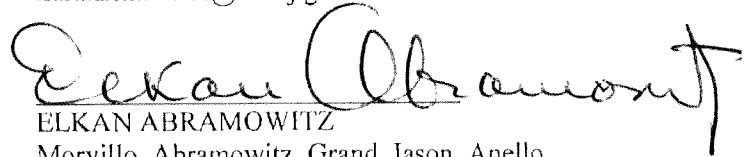
PREET BHARARA  
United States Attorney for the  
Southern District of New York

By:



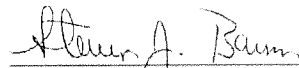
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Lara.Eshkenazi@usdoj.gov

Dated: New York, New York  
October 6, 2011



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& Bohrer, P.C.  
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New York, New York 10017  
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*Counsel for Steven J. Baum P.C. and Pillar  
Processing, LLC*

Dated: Amherst, New York  
October 6, 2011



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