

EXHIBIT B

1 UNITED STATES OF AMERICA

2 Before the

3 CONSUMER FINANCIAL PROTECTION BUREAU

4

5 In the Matter of :
6 : Administrative Proceeding
7 INTEGRITY ADVANCE, LLC : File No. 2015-CFPB-0029
8 and JAMES R. CARNES, :
9 Respondent. :
10

11 REPORTER'S OFFICIAL TRANSCRIPT OF PROCEEDINGS
12 HEARING (Volume II of III)

13 Washington, D.C.
14 Wednesday, July 20, 2016

15
16 BEFORE:

17 HONORABLE PARLEN L. MCKENNA, ADMINISTRATIVE LAW JUDGE

1 **APPEARANCES:**

2 **For the Agency:**

3 Alusheyi J. Wheeler, Esquire
4 Wendy J. Weinberg, Esquire
5 Vivian W. Chum, Esquire
6 Craig A. Cowie, Esquire

7 **For the Respondent:**

8 Allyson B. Baker, Esquire
9 Peter S. Frechette, Esquire
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13 Venable, LLP, Washington, D.C. 20004

14 **On Behalf of Mr. Edward Foster**

15 Gerald S. Sachs, Esquire

16 **ALSO PRESENT:**

17 For the Administrative Law Judge:
18 Heather MacClintock, Esquire
19 Lauren S. Staiti, Esquire

20
21
22 Jeannie A. Milio, RPR
23 Official Court Reporter
24 ALJ Office, Baltimore, Maryland 21202-4022

T A B L E O F C O N T E N T S

ENFORCEMENT COUNSEL'S WITNESSES:

	DIRECT	CROSS	REDIRECT	RECROSS
Edward Foster	II-5	II-46	--	--
James Carnes	II-48	II-62	II-86	II-99
Robert Hughes	II-110	--	--	--
Joseph Baressi	II-165	II-183	II-192	--

ENFORCEMENT COUNSEL	IDENTIFICATION	ADMITTED
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1 may financially perform and that would have taken into
2 consideration Integrity Advance performance, that's
3 what I recall.

4 Q. Were you involved in those Hayfield
5 projections?

6 A. I do not recall being involved in those
7 detailed projections.

8 Q. Do you recall reviewing those projections?

9 JUDGE MCKENNA: And that's as EVP.

10 THE WITNESS: Right. I do not recall
11 reviewing those as EVP.

12 BY MR. WHEELER:

13 Q. We have talked a little bit about the loan
14 agreement, Mr. Foster, who wrote Integrity Advance's
15 loan agreement?

16 A. I'm sorry. My pause is I'm trying to make
17 sure that anything I am discussing about that -- trying
18 to determine what is protected by the attorney/client
19 privilege.

20 I think what I safely can say is that no one
21 at the Hayfield group of companies, including myself
22 or Mr. Carnes, were consumer lawyers or experts in
23 consumer law. So the strategy of the company was to
24 always have highly compensated, highly acknowledged
25 and reputable consumer law counsel, outside counsel,

1 to provide the counsel and guidance on those matters.

2 Q. So is it your testimony that outside counsel
3 wrote the loan agreement?

4 A. I don't believe that would be violating the
5 attorney/client privilege to say that all agreements
6 were written by outside counsel.

7 Q. Did you review the loan agreement that outside
8 counsel drafted?

9 MS. BAKER: I'm just going to caution you --

10 JUDGE MCKENNA: I understand. And the next
11 question is the one that will be problematic for you
12 possibly.

13 MS. BAKER: Can I just register for the record
14 --

15 JUDGE MCKENNA: Yes.

16 MS. BAKER: -- my concern?

17 I just want to caution you, Mr. Foster, to not
18 disclose communications that would be a violation of
19 the -- or disclose the attorney/client privileged
20 communications, violation of any privilege.

21 THE WITNESS: Yes, I acknowledge and recognize
22 that.

23 Any answering of that question about loan
24 agreements and legal advice from outside counsel would
25 involve discussions that would infringe upon the

1 attorney/client privilege.

2 BY MR. WHEELER:

3 Q. Mr. Foster, I'm not asking about discussions.

4 I'm asking did you review the loan agreement that
5 outside counsel drafted?

6 MS. BAKER: And I would give the same
7 admonition to the extent it was done in his capacity
8 as general counsel. Whether or not he did something
9 would be a disclosure of privilege and work product.

10 MR. WHEELER: I'm just asking did he review
11 it. Not did he do anything to it. Just did he review
12 it?

13 JUDGE MCKENNA: Did he review it as executive
14 vice president?

15 THE WITNESS: I did not review any contracts
16 as executive vice president.

17 BY MR. WHEELER:

18 Q. Did you review it as general counsel?

19 MS. BAKER: Same objection and admonition.

20 JUDGE MCKENNA: Duly noted.

21 THE WITNESS: That would be discussions that
22 for me to talk about here would be violating the
23 attorney/client privilege.

24 BY MR. WHEELER:

25 Q. Again, I'm not asking about discussions. I

1 was asking did you review it as general counsel?

2 MS. BAKER: Same admonition and objection.

3 THE WITNESS: Again, I believe any discussions
4 or testimony involving that subject matter would
5 violate the attorney/client privilege.

6 JUDGE McKENNA: Can we move on?

7 MR. WHEELER: Yes, Your Honor.

8 BY MR. WHEELER:

9 Q. Mr. Foster, to your knowledge did Mr. Carnes
10 ever review the loan agreement?

11 MS. BAKER: Same objection and admonition to
12 the extent that --

13 JUDGE McKENNA: Sustained.

14 MS. BAKER: Thank you.

15 THE WITNESS: I cannot answer that question
16 without violating the attorney/client privilege.

17 BY MR. WHEELER:

18 Q. Mr. Foster, did Integrity Advance receive
19 consumer complaints?

20 A. Yes, Integrity Advance did receive consumer
21 complaints.

22 Q. Did someone at Integrity Advance have the
23 responsibility for monitoring those complaints?

24 A. Yes.

25 Q. Who was that?

1 A. The first -- it was a multi-faceted, I would
2 say or multi-layer. Obviously, from the call center
3 the initial people that took the phone call, the CSRs
4 had ability to receive and resolve those complaints.
5 If they felt that they could not or needed escalation,
6 it would escalate, it's my understanding, to a manager
7 in the call center.

8 And then beyond that ultimately to, I believe,
9 the person that was in charge of collections, what we
10 called collections and workouts. And then if it needed
11 further attention, it could not be resolved beyond
12 that, it came to the attention of the legal group in
13 Kansas City.

14 JUDGE MCKENNA: All right.

15 A. And then ultimately my responsibility because
16 the legal group reported to me.

17 JUDGE MCKENNA: For the record. CSR stands
18 for call center representative?

19 THE WITNESS: Customer service representative.
20 Thank you. I apologize for using that acronym.

21 BY MR. WHEELER:

22 Q. Did Integrity Advance track these complaints
23 in any sort of way?

24 A. Yes.

25 Q. How so?

1 extent legal matters or complaints could be determined
2 as problems. The answer would be yes.

3 Q. Did Integrity Advance's loan product change
4 over time?

5 A. I don't recall a significant change in the
6 product.

7 Q. Did Integrity Advance's loan agreement change
8 over time?

9 A. My recollection is, in fact, I'm sorry, it's
10 not my recollection, I feel confident that the
11 company's outside counsel reviewed the agreement of
12 Integrity Advance on a regular basis as did the
13 Delaware Banking Commission through its annual
14 licensing process and the exams it received all
15 reviewed the agreement.

16 And to the extent that there was advice and
17 guidance given that would require a change, I feel
18 confident that the company would have followed that
19 advice and counsel from the outside.

20 Q. So is it your recollection that the loan
21 agreement changed?

22 A. There would have been some changes in the loan
23 agreement over time.

24 Q. Would you classify those changes as
25 significant?

1 A. As to the loan product itself, no.

2 Q. Are you familiar with loan agreement templates
3 that Integrity Advance used?

4 A. Can you define what you mean by a template?

5 Q. Essentially a loan agreement that wasn't
6 filled out. Sort of like the base application and loan
7 agreement but without a consumer's information.
8 Something that could be filled in by a consumer.

9 A. Yes, then I am familiar and remember that
10 template, yes.

11 Q. Do you remember who approved the use of the
12 template?

13 MS. BAKER: I just want to caution Mr. Foster
14 to the extent that that question could be answered or
15 must be answered by disclosing the contents of a
16 communication that would have otherwise been
17 privileged, please don't disclose that privileged
18 information.

19 MR. WHEELER: The fact that a loan agreement
20 template was approved is not protected information.

21 MS. BAKER: That's my admonition and objection
22 to this question.

23 If it can be answered otherwise.

24 THE WITNESS: Yes. So I think I would say is
25 that you asked me that I recall similar or if not the