

1 UNITED STATES DISTRICT COURT  
2 NORTHERN DISTRICT OF CALIFORNIA

3 MICHAEL BLOMQUIST, ) No. C 07-04108 HRL  
4 Plaintiff, ) **TEMPORARY RESTRAINING ORDER**  
5 vs. )  
6 WASHINGTON MUTUAL, et al., )  
7 Defendants )

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9 TEMPORARY RESTRAINING ORDER AGAINST THE ADVERTISING AND  
10 ORIGINATION OF OPTION ADJUSTABLE RATE MORTGAGES („ARMs%b

11 1. Option ARMs are extremely deceptive to borrowers, regulatory agencies, financial  
12 investors and our nation’s banking system. Option ARMs are one of the most widely advertised  
13 loan products on the internet today. Recent studies with Loan Performance’s data  
14 (<http://www.loanperformance.com>) have shown that in 2006, 60% of Option ARMs are  
15 originated in California. The study also states that 88% of Option ARMs are originated with low  
16 documentation guidelines/no income verification („NIV%b, available at:  
17 <http://www.michaelblomquist.com/complaint/complaint%20exhibitshtm#loanperformance> (last  
18 visited September 10, 2007). Option ARMs on average carry twice the loan size balances of  
19 traditional 30 year fixed loans. It has also been found that 60% of borrowers obtaining loans  
20 with NIV guidelines inflate their incomes by 50%. Plaintiff alleges that Option ARM  
21 originations for Santa Clara County, the plaintiff’s primary county of business are some of the  
22 highest in the nation.

23 2. Origination of Option ARMs have increased 10 fold over the last few years. Option  
24 ARMs allow borrowers to make minimum payments which are often only 40% of accruing  
25 interest. The minimum payments are based on an extremely low interest rate of approximately

1 1.5%. Current fully indexed rates /accruing interest for Option ARMs range from 7%-8.5%.  
2 Plaintiff states that Option ARMs are the most deceptive, dangerous and fraudulent loan ever  
3 sold. This loan is targeted to prime borrowers as well as sub-prime borrowers. The deferred  
4 interest is added to the loan balance and the minimum payments only adjust annually 7.5%  
5 (\$4,000 payment goes to \$4,300 and so on).The loans are set to recast info fully-amortizing loans  
6 under the following triggers: Original loans balance exceeds 110%, 115% or 125%. The other  
7 trigger is based on time: Once the loan is 5 or 10 years old. These triggers depend upon the  
8 borrower's credit, original loan to value and individual lenders. It is not uncommon for  
9 borrowers' payments to triple once the loans are recast. Option ARMs are often associated with  
10 expensive 3 year prepayment penalties, which preclude many borrowers from refinancing into  
11 more traditional products.

12 3. In 2001 approximately \$32 billion of Option ARMs were originated. In 2005 \$341  
13 billion of Option ARMs were originated. This data is suspect in that many lenders report interest  
14 only loans together with Option ARM loans; the statistics could be much more alarming.

15 4. Rates of appreciation since 2001 and relaxed guidelines allowed many Option ARM  
16 borrowers to refinance into new Option ARMs thus delaying loan amortization/recast. Now that  
17 the real estate market is experiencing its first ever National declines, Option ARM refinance  
18 borrowers and buyers will most likely not have the option to refinance in the future. Lenders  
19 state that loans to value for Option ARMs are low, but value is a very subjective term under the  
20 relaxed guidelines and lending products of recent years. A petition with over 10,000 real estate  
21 appraisers is, available at <http://appraiserspetition.com/index.htm#signatures>

22 5. In 2006 deferred interest, interest that was never received, but booked as income  
23 (accounts receivable) made up more than 100% of World Saving's net income, available at  
24 [http://www.michaelblomquist.com/complaint/](http://www.michaelblomquist.com/complaint/complaint%20exhibits.htm#world) complaint%20exhibits.htm#world Plaintiff  
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1 alleges that Option ARMs are being sold below market costs, create illegal tying arrangements,  
2 deceptive to borrowers, investors and extremely dangerous to our financial system.

3 6. The deceptive structure of these loans have falsely comforted many buyers to  
4 purchase beyond their means. After 15 years as a licensed broker, Plaintiff has originated  
5 hundreds of loans. Plaintiff states that approximately 10% of borrowers adequately review loan  
6 disclosures, thus relying on agent to explain loan terms and fees. Besides borrowers being  
7 misled by Option ARM terms many borrowers are unaware of possible tax consequences. The  
8 lenders nor the IRS provides adequate disclosure that in the event of a lender's loan loss the  
9 borrowers could be liable for the amount of a deficiency, available at

10 <http://www.michaelblomquist.com/complaint/PDFs/IRSp544%201099c.pdf>

11 Option ARMs have yet to recast in significant numbers, nor has historical data been available for  
12 prolonged periods of declining real estate values.

13 7. Review of exhibits A-M in amended complaint will provide additional information.  
14 Plaintiff is updating a web site with related documents, links and a video documentary of this  
15 case and the legal process, available at <http://www.disountrealty.com>. It should be noted that at  
16 the request of former whistleblowers and witnesses their information has not yet been posted.

17  
18 Dated September 10, 2007

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s/Michael Blomquist  
Michael Blomquist  
pro se