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**UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH  
CENTRAL DIVISION**

<p>R. WAYNE KLEIN, as Receiver of National Note of Utah, LC <i>et al.</i>,</p> <p style="text-align: right;">Plaintiff,</p> <p style="text-align: center;">v.</p> <p>LARRY L. ADAMS, <i>et al.</i>,</p> <p style="text-align: right;">Defendants.</p>	<p style="text-align: center;"><b>MOTION FOR SUMMARY JUDGMENT AND MEMORANDUM IN SUPPORT</b></p> <p style="text-align: center;"><b>(KRISTINE S. OLSON PROFIT SHARING PLAN AND KRISTINE S. OLSON)</b></p> <p style="text-align: center;">Civil No. 2:14-cv-00614</p> <p style="text-align: center;">The Honorable Bruce S. Jenkins</p>
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Pursuant to Federal Rule of Civil Procedure 56, and DUCiv R 56-1, Plaintiff, R. Wayne Klein (the “Receiver”), the duly appointed Receiver in the case styled as *Securities and Exchange Commission v. National Note of Utah, LC et al.*, Case No. 2:12-cv-00591 (D. Utah) (the “Civil Enforcement Action”), by and through his counsel of record, hereby files this *Motion for Summary Judgment and Memorandum in Support (Kristine S. Olson Profit Sharing Plan and Kristine S. Olson)* (the “Motion”) against Defendants Kristine S. Olson Profit Sharing Plan and Kristine S. Olson (the “Defendants”).

This Motion is supported by the *Declaration of Receiver R. Wayne Klein, Receiver* (the

“Klein Declaration”), a true and correct copy of which is attached hereto as Exhibit A, as well as the Memorandum in Support set forth below. A proposed Order is attached hereto as Exhibit B.

## MEMORANDUM OF LAW

### I.

#### INTRODUCTION

National Note of Utah, L.C. (“National Note”) solicited millions of dollars from investors through the issuance of promissory notes. Some investors were provided with an “*Assignment of Beneficial Interest in Trust Deed*” or “ABI” which purportedly afforded these select investors with security for amounts allegedly owed to them under their notes. Defendants Kristine S. Olson Profit Sharing Plan and Kristine S. Olson are two of these select investors. Yet, all of the ABIs, including Defendants’ ABIs, were a sham -- they have no legal effect and are invalid as a matter of law. In recognition of the invalidity of the ABIs, more than 290 ABIs have been voluntarily released by ABI holders.<sup>1</sup> Defendants have not released their ABIs, and thus they have been included as defendants in the above-captioned proceeding, seeking a declaratory judgment that their ABIs (along with others) are invalid and void as a matter of law. The Receiver thus requests that the Court enter judgment on his First Claim for Relief, declaring that the Defendants’ ABIs are invalid and void as a matter of law.

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<sup>1</sup> Klein Declaration ¶ 4. At this time, at least 25 default judgments also have been entered against defendants in the above-captioned proceeding who have not answered the Complaint filed and served on them. *Id.*

## II.

### PROCEDURAL HISTORY

1. On June 25, 2012, the Securities & Exchange Commission commenced the Civil Enforcement Case in this Court by filing a *Complaint* against National Note, alleging that Wayne LaMar Palmer operated National Note and its many affiliated entities as a Ponzi scheme and asserting causes of action for securities fraud.<sup>2</sup>

2. On June 25, 2012, the Court entered an *Order Appointing Receiver and Staying Litigation* (the “Receivership Order”) in the Civil Enforcement Case, appointing the Receiver and creating the Receivership Estate, which includes National Note and its subsidiaries and affiliates and their respective assets.<sup>3</sup>

3. On September 12, 2013, the Receiver filed his *Complaint* against the Defendants and others, seeking a judgment declaring the ABI held by the Defendant to be invalid and void (First Claim for Relief).<sup>4</sup>

4. The Defendants have been served and have filed an Answer.

5. This Motion asks the Court to enter a judgment declaring the Defendants’ ABIs to be invalid and void.

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<sup>2</sup> Civil Enforcement Case, Docket No. 1.

<sup>3</sup> Civil Enforcement Case, Docket No. 9 (Receivership Order), a copy of which is attached as Exhibit 1 to the Klein Declaration.

<sup>4</sup> Complaint, Docket No. 2.

### III.

#### STATEMENT OF ELEMENTS AND UNDISPUTED MATERIAL FACTS

##### **A. Legal Elements and Authorities:**

An assignment of a deed of trust without assignment of the underlying debt instrument is void as a matter of law.<sup>5</sup>

##### **B. Material Facts Necessary to Meet the Elements:**

###### *Relevant Expressway – National Note Transactions*

1. Expressway Business Park, LLC (“Expressway”) is one of the numerous National Note affiliates subject to the Receivership Order.<sup>6</sup>

2. Pursuant to a *Promissory Note* dated July 14, 2003, Central Bank lent funds to Expressway (the “Expressway Note”).<sup>7</sup>

3. Expressway executed a *Deed of Trust* dated July 14, 2003 in conjunction with the Expressway Note (the “Expressway Deed of Trust”), giving Central Bank a secured interest in certain real property located in Spanish Fork, Utah (the “Expressway Property”).<sup>8</sup> The Expressway Deed of Trust was recorded in Utah County, Utah at Entry No. 129611:2003.<sup>9</sup> The

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<sup>5</sup> See *infra* Part IV(B) (discussing Utah Code Ann. § 70A-9a-109, Official Comment 7; *Bellistri v. Ocwen Loan Servicing, LLC*, 284 S.W.3d 619, 623 (Mo. Ct. App. 2009); *Wolfe v. Leisure Time Sports, Inc. (In re Leisure Time Sports, Inc.)*, 194 B.R. 859, 861 (9th Cir. BAP 1996); *Yorke v. Citibank, N.A. (In re BNT Terminals, Inc.)*, 125 B.R. 963, 970-71 (Bankr. N.D. Ill. 1991); *Pierce v. Tavormina (In re Hurricane Resort Co.)*, 30 B.R. 258, 260-61 (S.D. Fla. 1983)).

<sup>6</sup> Klein Declaration ¶ 5 & Exhibit 1 (Receivership Order, at pp. 1-3).

<sup>7</sup> *Id.* ¶ 6 & Exhibit 2 (Expressway Note).

<sup>8</sup> *Id.* ¶ 7 & Exhibit 3 (Expressway Deed of Trust).

<sup>9</sup> *Id.*, Exhibit 3 (Expressway Deed of Trust).

Expressway Deed of Trust was assigned to National Note by an *Assignment of Trust Deed* dated September 9, 2008, and was recorded in Utah County, Utah at Entry No. 101396:2008.<sup>10</sup>

*The Kristine S. Olson Profit Sharing Plan ABI*

4. National Note solicited investors by issuing promissory notes to them, promising to repay monies that had been “lent” to National Note plus interest.<sup>11</sup>

5. In 2008, the Kristine S. Olson Profit Sharing Plan (the “Plan”) transferred \$300,000 to National Note, and a *Promissory Note* dated July 23, 2008, was issued (the “Plan Note”).<sup>12</sup>

6. National Note executed an “*Assignment of Beneficial Interest in Trust Deed for Security*” dated September 24, 2008, in favor of the Plan (the “Plan ABI”), granting Defendant nothing more than an interest in National Note’s interest in the Expressway Deed of Trust, stating in part as follows:

For value received, and to secure the payment of [the Plan Note], the undersigned Assignor, National Note of Utah, L.C., hereby assigns to the Assignee(s), Kristine S. Olson Profit Sharing Plan, an undivided \$300,000.00 of Assignor’s right, title and interest in and to the beneficial interest in that certain Trust Deed dated July 14, 2003, executed by Expressway Business Park, LLC . . .<sup>13</sup>

7. National Note did not execute any assignment of its interest in the Expressway Note to the Plan.<sup>14</sup>

8. Expressway is not a party to the Plan ABI.<sup>15</sup>

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<sup>10</sup> *Id.* ¶ 8.

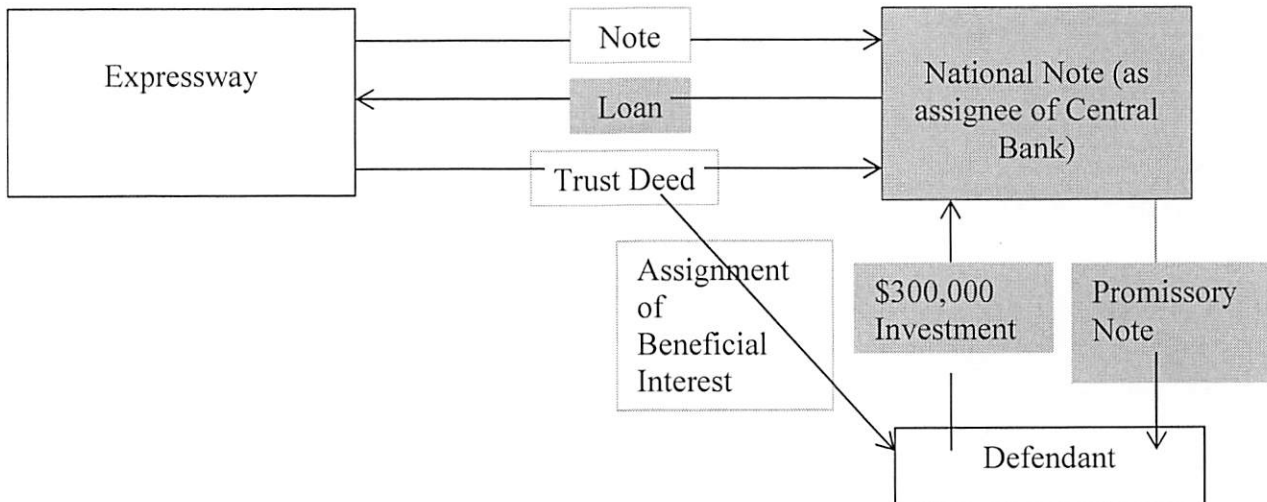
<sup>11</sup> *Id.* ¶ 9.

<sup>12</sup> *Id.* ¶ 10.

<sup>13</sup> *Id.* ¶ 11 & Exhibit 4 (Plan ABI).

<sup>14</sup> *Id.* ¶14.

9. The following graph illustrates the transaction:



10. The Plan ABI was filed in Utah County, Utah at Entry No. 105500:2008.<sup>16</sup>

*The Kristine S. Olson ABI*

11. In 2008, Kristine S. Olson (“Olson”) transferred \$450,000, to National Note, and a *Promissory Note* dated July 23, 2008, was issued (the “Olson Note”).<sup>17</sup>

12. National Note executed an “*Assignment of Beneficial Interest in Trust Deed for Security*” dated September 24, 2008, in favor of Olson (the “Olson ABI”), granting Olson noting more than an interest in National Note’s interest in the Expressway Deed of Trust:

For value received, and to secure the payment of [the Olson Note], the undersigned Assignor, National Note of Utah, L.C., hereby assigns to the Assignee(s), Kristine S. Olson, an undivided \$450,000.00 of Assignor’s right, title and interest in and to the beneficial interest in that certain Trust Deed dated July 14, 2003, executed by Expressway Business Park, LLC . . .<sup>18</sup>

<sup>15</sup> *Id.*, Exhibit 4 (Plan ABI).

<sup>16</sup> *Id.*, Exhibit 4 (Plan ABI).

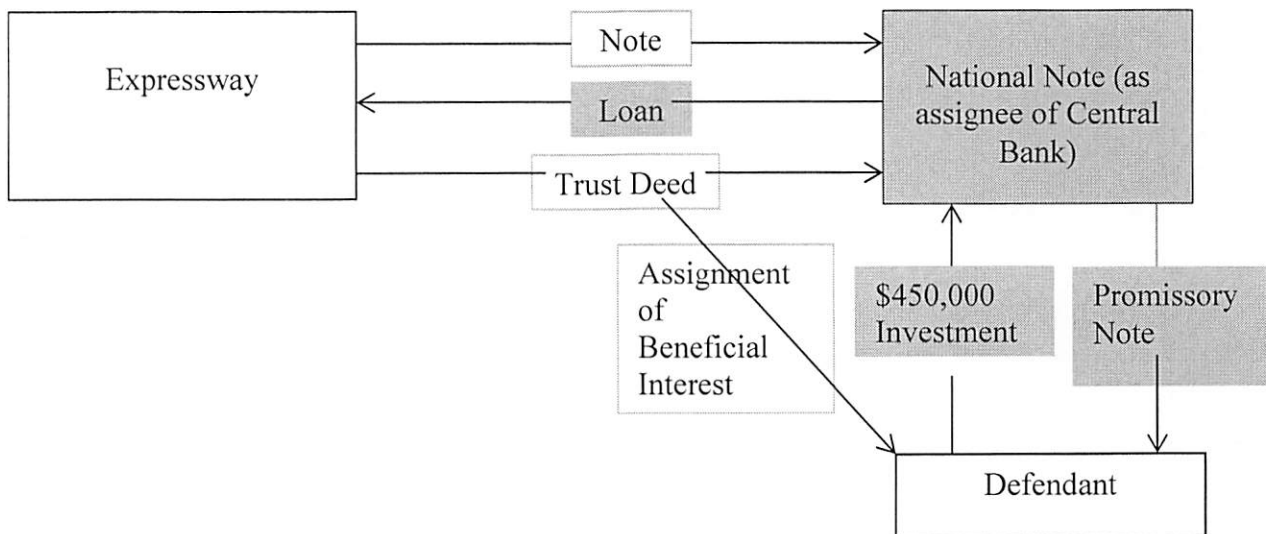
<sup>17</sup> *Id.* ¶ 12.

<sup>18</sup> *Id.* ¶ 13 & Exhibit 5 (Olson ABI).

13. National Note did not execute any assignment of its interest in the Expressway Note to Olson.<sup>19</sup>

14. Expressway is not a party to the Olson ABI.<sup>20</sup>

15. The following graph illustrates the transaction:



16. The Olson ABI was filed in Utah County, Utah at Entry No. 105467:2008.<sup>21</sup>

#### IV.

### ARGUMENT

#### **A. Summary Judgment Standard**

Pursuant to Rule 56 of the Federal Rules of Civil Procedure, the Court “shall grant summary judgment if the movant shows there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” In this matter, the material facts are undisputed or cannot be disputed, presenting pure issues of law for determination by the Court.

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<sup>19</sup> *Id.* ¶14.

<sup>20</sup> *Id.*, Exhibit 5 (Olson ABI).

<sup>21</sup> *Id.*, Exhibit 5 (Olson ABI).

Accordingly, for the reasons discussed below, the Court should grant summary judgment and declare that the Plan and Olson ABIs are invalid as a matter of law.

**B. The ABIs are Void as a Matter of Law**

Courts uniformly hold that any attempt to transfer a security interest without transfer of the underlying debt is void. This rule is typically explained as follows: “A security interest cannot exist, much less be transferred, independent from the obligations which it secures. The security interest follows the debt. If the debt is not transferred, neither is the security interest.”<sup>22</sup> Thus, “[a]n assignment of the deed of trust separate from the note has no ‘force’”<sup>23</sup>— if the note is not also assigned, the assignment of the deed of trust is, for all practical purposes, ineffectual because the note and deed of trust have become split.<sup>24</sup>

Utah law follows this rule. Utah Code Ann. § 70A-9a-109 discusses the scope of Utah’s Uniform Commercial Code, particularly as it relates to the assignment of a mortgage or other security interest in real and personal property. Official Comment 7 to that section states: “An attempt to obtain or perfect a security interest in a secured obligation by complying with non-Article 9 law, as by an assignment of record of a real-property mortgage, would be ineffective.” The comment further states that: “Finally . . . one cannot obtain a security interest in a lien, such

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<sup>22</sup> *Wolfe*, 194 B.R. at 861. *Accord, e.g., Yorke*, 125 B.R. at 970-71 (citation omitted) (“It is hornbook law that a mortgage follows the debt it secures. An assignment of a mortgage without the transfer of the underlying note is a nullity.” & “It is axiomatic that any attempt to assign the mortgage without transfer of the debt will not pass the mortgagee’s interest to the assignee.”).

<sup>23</sup> *Bellistri*, 284 S.W.3d at 623.

<sup>24</sup> *Id.* at 624.



as a mortgage on real property, that is not also coupled with an equally effective security interest in the secured obligation.”<sup>25</sup>

Here, it is undisputed and cannot be disputed that National Note has not assigned any interest that it has in the Expressway Note to the Defendants. Rather, by the express terms of the Plan and Olson ABIs, National Note only assigned to the Defendants its beneficial interest in the Expressway Deed of Trust. Accordingly, under the law set forth above, the Olson and Plan ABIs “ha[ve] no force” as a matter of law<sup>26</sup> and the Receiver is entitled to summary judgment on his First Cause of Action declaring the Olson and Plan ABIs to be invalid.

V.

CONCLUSION

For all of the reasons set forth above, the Defendants’ ABIs are invalid and void as a matter of law. Accordingly, the Receiver respectfully requests that this Court grant the Receiver’s Motion and enter summary judgment against Defendants on his First Cause of Action.

DATED this 1<sup>st</sup> day of May, 2015.

**DORSEY & WHITNEY LLP**

/s/ Peggy Hunt

Peggy Hunt

Chris Martinez

*Attorneys for Receiver*

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<sup>25</sup> Utah Code Ann. § 70A-9a-109, Official Comment 7.

<sup>26</sup> *Bellistri*, 284 S.W.3d at 623.

**CERTIFICATE OF SERVICE**

I hereby certify that on May 1, 2015, a true and correct copy of the foregoing **MOTION FOR SUMMARY JUDGMENT AND MEMORANDUM IN SUPPORT** was served via the Court's ECF system on all parties who have requested notice in this case.

/s/ Candy Long