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United States District Court
For the Northern District of California

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

KAREN LUCIA and JEFFREY LUCIA, on
behalf of themselves and other similarly
situated,

No. C 10-04749 JSW
No. C 10-05073 JSW

Plaintiffs,

v.

WELLS FARGO BANK, N.A. d/b/a WELLS
FARGO HOME MORTGAGE and DOES 1-
10,

**ORDER GRANTING WELLS
FARGO’S MOTIONS TO DISMISS
IN RELATED CASES**

Defendants.

PHILLIP R. CORVELLO, on behalf of himself
and all other similarly situated,

Plaintiff,

v.

WELLS FARGO BANK, N.A. d/b/a WELLS
FARGO HOME MORTGAGE d/b/a
AMERICA’S SERVICING COMPANY,

Defendants.

Now before the Court are the motions to dismiss filed by Defendant Wells Fargo Bank, N.A. d/b/a Wells Fargo Home Mortgage (“Wells Fargo”). Having considered the parties’ papers, the relevant legal authority, and the record in this case, the Court GRANTS Wells Fargo’s motions to dismiss in both related cases without leave to amend.¹

¹ The Court GRANTS the pending motions for leave to file notice of supplemental authority. (See Case No. 10-04749, doc. nos. 47 and 48; Case No. 10-05072, doc. no. 34.)

BACKGROUND**A. The Home Affordable Modification Program.**

In the midst of the financial crisis of 2008, Congress enacted the Emergency Economic Stabilization Act. In an effort to mitigate the financial impact of the foreclosure crisis and preserve home ownership, the central piece of that legislation was the Trouble Asset Relief Program (“TARP”), through which the Secretary of the Department of Treasury was delegated the broad power to “implement a plan that seeks to maximize assistance for homeowners and ... encourage the servicers of the underlying mortgages ... to take advantage of ... other available programs to minimize foreclosures.” 12 U.S.C. § 5219(a).

Acting under this authority, the Secretary of the Treasury announced the “Making Home Affordable Program” which included the “Home Affordable Mortgage Program (“HAMP”) in order to provide relief to borrowers who have defaulted on their mortgage payments or who are likely to default by reducing mortgage payments to sustainable reduced levels, without discharging any of the underlying debt. (Lucia Compl. at ¶¶ 1, 2.) Under HAMP, loan servicers are provided with incentive payments for issuing permanent loan modifications. Banks that receive federal funding from the TARP are obligated to participate in HAMP. (*Id.* at ¶ 2.) Wells Fargo received \$25 billion in TARP funds in 2008 and, in exchange, agreed to participate in HAMP. (*Id.* at ¶ 3.)

Wells Fargo received \$25 billion in TARP funds in 2008 and, in exchange, agreed to participate in the HAMP program. (*Id.* at ¶¶ 2, 28.) Wells Fargo entered into a Servicer Participation Agreement (“SPA”) with the federal government on April 13, 2009. (*Id.* at ¶ 28.) On March 16, 2010, Wells Fargo entered into an Amended and Restated SPA. (*Id.* at ¶ 29.) The SPA incorporates supplemental documentation and guidelines issued by the Department of Treasury, Fannie Mae or Freddie Mac, collectively known as the “Program Guidelines.” (*Id.* ¶ 30.)

Fannie Mae issued its Supplemental Directives (“SDs”) from April 2009 through September 2010, which set out HAMP-related activities Wells Fargo must perform and all eligibility guidelines. (*Id.* ¶ 32.) The guidelines set forth basic eligibility criteria and requires

1 the servicer to perform a net present value (“NPV”) analysis, comparing the NPV of a modified
2 loan to the NPV of an unmodified loan. (*Id.* at ¶¶ 36-39; SD 09-01 at 4-5.) The servicer is
3 required to apply a sequence of steps, the “Standard Modification Waterfall,” to evaluate a
4 hypothetical loan modification that would lower the borrower’s payment to no greater than 31%
5 of the borrower’s gross monthly income. (*Id.*; SD 09-01 at 8-10.) The Standard Modification
6 Waterfall includes the steps of reducing the interest rate in increments of .125% down to the
7 floor interest rate of 2%, extending the term of the loan, and forgiving principal. (SD 09-01 at
8 9-10.) “If the NPV result for the modification scenario is greater than the NPV result for no
9 modification, the result is deemed ‘positive’ and the servicer MUST offer the modification.”
10 (SD 09-01 at 4; Lucia Compl. at ¶ 39.) “If the NPV result for no modification is greater than
11 NPV result for the modification scenario, the modification result is deemed ‘negative’ and the
12 servicer has the option of performing the modification in its discretion.” (SD 09-01 at 4.)

13 Under HAMP, “[s]ervicers must use a two-step process for HAMP modifications. Step
14 one involves providing a Trial Period Plan [“TPP”] outlining the terms of the trial period, and
15 step two involves providing the borrower with an Agreement that outlines the terms of the final
16 modification.” (SD 09-01 at 14.) Under the TPP the homeowner makes mortgage payments
17 based on adjusted loan terms during a three-month trial period. (Lucia Compl. at ¶ 40; SD 09-
18 01 at 17-18.) Plaintiffs allege that Wells Fargo offers TPPs to eligible homeowners through a
19 TPP Contract which promises a permanent HAMP modification for those homeowners who
20 make the required payments under the plan and fulfill the documentation requirements. (Lucia
21 Compl. at ¶ 41.)

22 **B. Plaintiffs Karen and Jeffrey Lucia.**

23 In 1999, Plaintiffs Karen and Jeffrey Lucia purchased and moved into a house located at
24 4464 Jay Court in Napa, California. (*Id.* at ¶ 57.) In 2006, the Lucias refinanced their debt on
25 the home by taking out a loan with Wells Fargo in the amount of \$520,000. Due to the
26 economic recession, the Lucias lost their jobs and, struggling to make their mortgage payments,
27 sought out a loan modification. (*Id.* at ¶¶ 58-61.) Wells Fargo did not inform the Lucias that
28 they might qualify for a loan modification under HAMP, but after consulting with the

1 Department of Housing and Urban Development, Ms. Lucia inquired of the bank about how to
2 apply for a HAMP loan modification. (*Id.* at ¶¶ 61-62.)

3 Ms. Lucia alleges that she spoke with a Wells Fargo representative who assured her that
4 the Lucias were pre-approved for the modification and that if they sent in all of the
5 documentation and made all of their reduced payments on time, their reduced monthly payment
6 would become permanent. (*Id.* at ¶ 62.) After multiple telephone discussions with Wells Fargo
7 representatives about required documentation and, having sent in the required documents and
8 reduced monthly payments, and while still in negotiations with Wells Fargo about the
9 permanent loan modification, without notice on August 12, 2010, the bank initiated a
10 foreclosure sale on the home. (*Id.* at ¶¶ 63-70.) Wells Fargo indicated that the foreclosure was
11 proceeding because the Lucias' loan modification application had been denied due to lack of
12 proper documentation. (*Id.* at ¶ 70.) After the foreclosure, the bank reviewed the matter and
13 indicated that it believed it had not acted improperly. (*Id.* at ¶ 72.) After the home was
14 purchased by U.S. Bank National Association, Ms. Lucia sent Wells Fargo more of the
15 requested documentation, but received only a notice from the court indicating that the eviction
16 trial had been scheduled for October 22, 2010. (*Id.* at ¶ 73.)

17 The Lucias allege the following claims for relief: (1) violation of the Rosenthal Fair
18 Debt Collection Practices Act ("Rosenthal Act"), California Civil Code section 1788, *et seq.*;
19 (2) violation of the Business and Profession Code section 17200, *et seq.*; (3) breach of the
20 covenant of good faith and fair dealing; (4) breach of contract (for the TPP agreement); (5)
21 breach of contract (for the TPA contracts); and (6) promissory estoppel.

22 **C. Plaintiff Phillip R. Corvello.**

23 In September 2007, Plaintiff Phillip R. Corvello closed escrow on a home in Fairfield,
24 California and secured a mortgage from Wells Fargo. (Corvello Compl. at ¶ 71.) In the
25 beginning of May 2009, Corvello contacted Wells Fargo and informed the bank that it was
26 unlikely he could remain current on his mortgage payments and discussed options including the
27 Trial Period Plans under HAMP. (*Id.* at ¶ 72.) On July 17, 2009, Wells Fargo sent Corvello a
28 form letter indicating that he may qualify for a HAMP TPP. (*Id.* at ¶75.) After Corvello timely

1 complied with all of the requirements specified in the letter and sent in his initial payment, he
 2 signed the standard TPP agreement and timely submitted the required documentation and all
 3 three TPP payments. (*Id.* at ¶¶ 78-79.)

4 The standardized TPP Agreement states in part:

5 If I [Borrower] am in compliance with the Loan Trial Period and my
 6 representations in Section 1 continue to be true in all material respects, then
 7 the Lender will provide me with a Loan Modification Agreement, as set forth
 in Section 3, that would amend and supplement (1) the mortgage on the
 Property, and (2) the Note secured by the Mortgage.

8 (*Id.* at ¶ 61 and Ex. G.) Although Corvello complied with the requirements of the trial period,
 9 he was never offered a permanent mortgage modification. (*Id.* at ¶ 80.)

10 Corvello alleges the following claims for relief: (1) breach of contract for breach of the
 11 TPP Agreement; (2) breach of contract as a third party beneficiary to the TPA; (3) promissory
 12 estoppel; (4) breach of the implied covenant of good faith and fair dealing; (5) violation of the
 13 Business and Profession Code section 17200, *et seq.*; and (6) declaratory relief.

14 The Court shall address additional facts as necessary in the remainder of this Order. The
 15 Court shall address the motions to dismiss together in both related cases and only identify
 16 distinctions between the cases to the extent they are relevant to the analysis.

17 ANALYSIS

18 A. Legal Standard.

19 A motion to dismiss is proper under Federal Rule of Civil Procedure 12(b)(6) where the
 20 pleadings fail to state a claim upon which relief can be granted. The Court's "inquiry is limited
 21 to the allegations in the complaint, which are accepted as true and construed in the light most
 22 favorable to the plaintiff." *Lazy Y Ranch LTD v. Behrens*, 546 F.3d 580, 588 (9th Cir. 2008).
 23 Even under the liberal pleading standard of Federal Rule of Civil Procedure 8(a)(2), "a
 24 plaintiff's obligation to provide the 'grounds' of his 'entitle[ment] to relief' requires more than
 25 labels and conclusions, and a formulaic recitation of the elements of a cause of action will not
 26 do." *Bell Atlantic Corporation v. Twombly*, 550 U.S. 544, 555 (2007) (citing *Papasan v. Allain*,
 27 478 U.S. 265, 286 (1986)).
 28

1 Pursuant to *Twombly*, a plaintiff must not merely allege conduct that is conceivable but
2 must instead allege “enough facts to state a claim to relief that is plausible on its face.” *Id.* at
3 570. “A claim has facial plausibility when the plaintiff pleads factual content that allows the
4 court to draw the reasonable inference that the defendant is liable for the misconduct alleged.”
5 *Ashcroft v. Iqbal*, 556 U.S. ___, 129 S. Ct. 1937, 1949 (2009) (citing *Twombly*, 550 U.S. at 556).
6 If the allegations are insufficient to state a claim, a court should grant leave to amend, unless
7 amendment would be futile. *See, e.g., Reddy v. Litton Indus., Inc.*, 912 F.2d 291, 296 (9th Cir.
8 1990); *Cook, Perkiss & Liehe, Inc. v. N. Cal. Collection Serv., Inc.*, 911 F.2d 242, 246-47 (9th
9 Cir. 1990).

10 As a general rule, “a district court may not consider any material beyond the pleadings
11 in ruling on a Rule 12(b)(6) motion.” *Branch v. Tunnell*, 14 F.3d 449, 453 (9th Cir. 1994),
12 *overruled on other grounds, Galbraith v. County of Santa Clara*, 307 F.3d 1119 (9th Cir. 2002)
13 (citation omitted). However, documents subject to judicial notice may be considered on a
14 motion to dismiss. In doing so, the Court does not convert a motion to dismiss to one for
15 summary judgment. *See Mack v. South Bay Beer Distrib.*, 798 F.2d 1279, 1282 (9th Cir.1986),
16 *overruled on other grounds by Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104
17 (1991).

18 **B. Motions to Dismiss.**

19 Wells Fargo moves to dismiss the Plaintiffs’ claims on a number of bases. The Court
20 shall address each in turn.

21 **1. National Bank Act Preemption.**

22 Wells Fargo contends that Plaintiffs’ state law claims impermissibly impinge on the
23 bank’s ability to service mortgage loans, including making the decision whether and under what
24 circumstances to modify a loan or commence foreclosure proceedings. Pursuant to the National
25 Banking Act (“NBA”), Congress vested the national banks with certain enumerated powers, as
26 “shall be necessary to carry on the business of banking,” including the power to engage in
27 mortgage lending. *See* 12 U.S.C. §§ 24, 371(a); *Watters v. Wachovia Bank, N.A.*, 550 U.S. 1, 6
28 (2007). Under 12 C.F.R. § 34.4(a), the NBA and its implementing regulations expressly permit

1 national banks to “make real estate loans ... without regard to state law limitations concerning ...
2 [p]rocessing, origination, servicing, sale or purchase of, or investment or participation,
3 mortgages.” Although “state laws that obstruct, impair, or condition a national bank’s ability
4 to fully exercise its Federally authorize real estate lending powers do not apply to national
5 banks.” 12 C.F.R. § 34.4(a)(10). However, “[f]ederally chartered banks are subject to state
6 laws of general application in the daily business to the extent such laws do not conflict with the
7 letter or the general purposes of the [NBA].” *Watters*, 550 U.S. at 11.

8 Although several district courts within the Ninth Circuit have found that the Home
9 Owners’ Loan Act (“HOLA”), 12 U.S.C. § 1464(b)(10), preempts certain state law claims
10 relating specifically to mortgage processing, the Court finds that the particular claims made in
11 this matter – premised upon state contract law, unfair competition and Rosenthal Act – are state
12 laws of general application. *See Winding v. Cal-Western Reconveyance Corp.*, 2011 WL
13 221321, *12 (E.D. Cal. Jan. 24, 2011); *Khan v. World Saving Bank, FSB*, 2011 WL 133030, *4
14 (N.D. Cal. Jan. 14, 2011); *Gens v. Wachovia Mortgage Corp.*, 2011 WL 9121, *9 (N.D. Cal.
15 Jan. 3, 2011). The theories upon which the claims are based do not necessarily impinge upon
16 the bank’s obligations under the NBA. Accordingly, the Court does not dismiss Plaintiffs’
17 claims based upon the theory of federal preemption.

18 **2. Breach of Contract Claims.**

19 Wells Fargo argues that, while couching their claims as state law breach of contract
20 claims, Plaintiffs are essentially trying to maintain a private right of action to enforce the
21 requirements of HAMP. Neither the Emergency Economic Stabilization Act, which created
22 HAMP, nor HAMP’s guidelines create “a property interest in loan modifications for mortgages
23 in default.” *Williams v. Geithner*, 2009 WL 3757380, at *6 (D. Minn. Nov. 9, 2009); *see also*
24 *Hoffman v. Bank of America, N.A.*, 2010 WL 2635773, at *3 (N.D. Cal. June 30, 2010) (holding
25 that because lenders are not required to make loan modifications for borrowers that qualify
26 under HAMP and the servicer’s agreement does not confer an enforceable right on the
27 borrower, there is no private right to enforce HAMP). As have the other district courts that
28

1 have addressed the issue, this Court finds that HAMP affords homeowners no private right of
2 action.

3 Plaintiffs argue, however, that they are not trying to create a private right of action to
4 enforce HAMP. Rather, Plaintiffs contend that they seek to enforce Wells Fargo's contractual
5 obligations under the SPA and TPP Contracts, not to claim a constitutionally protected property
6 right in a permanent modification. Plaintiffs allege that Wells Fargo consented to offer them a
7 permanent modification if they successfully completed their TPP, thereby contending that the
8 TPP was a contract that was breached as Plaintiffs fulfilled their obligations under the TPP, and
9 Wells Fargo reneged by failing to offer them a permanent modification.² Plaintiffs also argue
10 that the HAMP guidelines in effect at the time of the TPPs at issue here provided that borrowers
11 who successfully completed the TPP and provided all necessary documentation were entitled to
12 receive an offer for permanent loan modification. (*See Lucia Opp. Br.* at 9; *Corvello Opp. Br.*
13 at 10-11, citing SD 09-01 at 17-18.)

14 In order to state a claim for breach of contract, Plaintiffs must allege "the existence of
15 the contract, performance by the plaintiff or excuse for nonperformance, breach by the
16 defendant and damages." *First Commercial Mortgage Co. v. Reece*, 89 Cal. App. 4th 731, 745
17 (2001). "Consideration consists of a benefit bestowed or a detriment suffered as bargained for
18 by the parties." *A.J. Industries, Inc. v. Ver Halen*, 75 Cal. App. 3d 751, 761 (1977).

19 Wells Fargo contends that the claim for breach of contract must be dismissed because
20 Plaintiffs have not alleged a cognizable form of consideration to support the existence of a valid
21 contract. Although Plaintiffs must concede that they had a pre-existing duty to make mortgage
22 payments, Plaintiffs contend that the TPP payments are sufficient consideration and the
23 additional consideration suffered was the credit consequences of their partial mortgage
24 payments and fulfilling the burdensome documentation requirements of the loan modification
25 approval process. (*Lucia Opp. Br.* at 12; *Corvello Opp. Br.* at 12-13.) Plaintiffs' allegations,
26

27 ² In the *Lucias'* complaint, Plaintiffs were never even given the TPP Contract, but
28 only allegedly offered terms in conversation over the telephone. Still, the Court shall address
the claims under the terms that would have been effective at the time of the alleged oral
offer.

1 accepted as true, support the existence of the contract to participate in the TPP for the three
 2 month trial period, but not a contract for permanent modification after the trial period expired.³
 3 *See Morales v. Chase Home Finance LLC*, Case No. 10-02068 JSW, at 7; *see contra Ansanelli*
 4 *v. JP Morgan Chase Bank, N.A.*, 2011 WL 1134451, at *4 (N.D. Cal. March 28, 2011).

5 Under California law, the intention of the parties as expressed in the contract is the
 6 source of contractual rights and duties. *Pacific Gas & Elec. Co. v. G.W. Thomas Drayage*, 69
 7 Cal. 2d 33, 38 (1968). In *Grill v. BAC Home Loans Servicing LP*, 2011 WL 127891, at *4
 8 (E.D. Cal. Jan. 14, 2011), the Court reviewed the language of the TPP agreement similar to the
 9 ones at issue here and determined that TPP Contract contradicted the plaintiff's claim that a
 10 binding contract for loan modification existed. The TPP Contracts here contain the same
 11 language that the *Grill* court found insufficient to support a contract for permanent loan
 12 modification:

13 I understand that the Plan is not a modification of the Loan Documents and
 14 that the Loan Documents will not be modified unless and until (i) I meet all
 15 of the conditions required for modification, (ii) I receive a fully executed
 16 copy of a Modification Agreement, and (iii) the Modification Effective Date
 has passed. I further understand and agree that the Lender will not be
 obligated or bound to make any modification of the Loan Documents if I fail
 to meet any one of the requirements under this Plan.

17 (Corvello Compl. Ex. G at ¶ 2G.) The *Grill* court determined that this contractual language
 18 “makes clear that providing the requested documents was simply a part of the application
 19 process, which plaintiff was willing to complete in the hope that BAC would modify his loan.
 20 Under the language of [the TPP Contract], a binding modification would not result unless and
 21 until BAC determined that plaintiff complied with the requirements. If BAC so determined,
 22 then it would send plaintiff a modification agreement, including a new monthly payment
 23 amount, which both plaintiff and defendant would execute.” 2011 WL 127891, at *4. Because
 24 *Grill* had failed to allege either that the lender determined that he had met the requirements or
 25 that the lender sent *Grill* a loan modification that was executed, the court dismissed the breach

26 _____
 27 ³ The fact that the Lucias never received a written agreement from Wells Fargo
 28 regarding their participation in the Trial Period may be determinative. *See Clark v.*
Countrywide Home Loans, Inc., --- F. Supp. 2d ---, 2010 WL 3154119, at *3 (E.D. Cal. Aug.
 9, 2010 (holding that oral agreement to modify mortgage loan falls within the statute of
 frauds). However, the Court addresses the merits of the breach of contract claims regardless.

1 of contract claim with leave to amend. *Id.* See *Vida v. OneWest Bank, F.S.B.*, 2010 WL
2 5148473 *6 (D. Or. Dec. 13, 2010) (“The Trial Period Plan is explicitly not an enforceable offer
3 for loan modification.”). See also *Lonberg v. Freddie Mac*, 2011 WL 838943 (D. Or. March 4,
4 2011); *Wigod v. Wells Fargo Bank, N.A.*, 2011 WL 250501 (N.D. Ill. Jan. 25, 2011).

5 The Court has reviewed the decisions of other district courts that have held that the TPP
6 Contract supports a breach of contract claim by borrowers who entered the TPP Contract.
7 Those decisions do not address the specific contract provision considered here and in *Grill* and
8 *Morales*. See *Durmic v. J.P. Morgan Chase Bank, N.A.*, 2010 WL 4825632 (D. Mass. Nov. 24,
9 2010); *Jackson v. Ocwen*, 2011 WL 587587 (E.D. Cal. Feb. 9, 2011). In *Bosque v. Wells Fargo*
10 *Bank, N.A.*, --- F. Supp. 2d ---, 2011 WL 304725 (D. Mass. Jan. 26, 2011), the court reviewed
11 other specific provisions of the TPP contract but did not hold that terms of the TPP Contract
12 created a contract for permanent modification. There, the court denied the lender’s motion to
13 dismiss the plaintiffs’ breach of contract claim and noted that the plaintiffs did not argue “that
14 the TPP is a contract for a permanent loan modification.” *Id.* at *6. The court determined that
15 although the plaintiffs had previously argued that they were entitled to a permanent
16 modification as long as they complied with their obligations under the TPP, the plaintiffs more
17 recently relied on another contract theory that “they are merely entitled to a decision by Wells
18 Fargo as to whether they will receive a permanent modification by the modification effective
19 date specified in section 2 of the TPP.” *Id.* at *4. The *Bosque* plaintiffs alleged that Wells
20 Fargo “failed to notify plaintiffs of any decision with regard to their loan modification status.”
21 *Id.* at *3. The *Bosque* court denied the motion to dismiss the contract claim on the ground that
22 “the TPP contains all essential and material terms necessary to govern the trial period
23 repayments and the parties’ related obligations,” including “a decision on whether plaintiffs are
24 entitled to the permanent modification.” *Id.* at *6-7.

25 Plaintiffs specifically allege that “[t]he TPP Contract promises a permanent HAMP
26 modification for those homeowners who make the required payments under the plan and fulfill
27 the documentation requirements” and that “Wells Fargo breached the TPP Contract ... by failing
28 to offer Plaintiffs and members of the Plaintiff Class permanent HAMP modifications at the

1 close of their Trial Periods.” (Lucia Compl. at ¶¶ 41, 110; Corvello Compl. at ¶¶ 57, 94.)
2 Plaintiffs fail to allege, however, that they have met all the conditions set forth in the TPP
3 Contract for loan modification, including receipt of a “fully executed copy of a Modification
4 Agreement,” and therefore fail to allege the existence of a binding contract regarding a
5 permanent loan modification. Accordingly, the motion to dismiss both sets of Plaintiffs’ breach
6 of contract claims are therefore GRANTED.

7 With regard to whether Plaintiffs could amend their breach of contract claims to allege
8 additional facts, the legal question whether Plaintiffs had a contract for permanent modification
9 does not turn on whether or not Plaintiffs actually qualify for permanent HAMP modification.
10 As the court determined in *Williams v. Geithner*, Congress did not intend for HAMP to mandate
11 loan modifications. 2009 WL 3757380, at *6. The *Williams* court determined that the
12 “regulations promulgated by Treasury for administering the HAMP clearly demonstrate that the
13 Secretary allowed the exercise of some discretion, including calculation of the NPV, to the
14 servicers.” *Id.* HAMP only requires participating servicers to consider eligible loans for
15 modification, but does not require servicers to modify eligible loans. *See Hoffman*, 2010 WL
16 2635773, at *4; *Marks v. Bank of America*, 2010 WL 2572988, at *3 (D. Ariz. June 22, 2010).

17 Even if Plaintiffs were able to allege that Wells Fargo determined that they qualified for
18 permanent modification under the Net Present Value analysis, neither will be able to allege that
19 he received a fully executed copy of a Modification Agreement. Thus, amendment of the
20 breach of contract claim would be futile and no leave to amend shall be granted.

21 3. Breach of the Covenant of Good Faith and Fair Dealing Claims.

22 Plaintiffs allege that Wells Fargo violated the covenant of good faith and fair dealing in
23 its TPP Contracts by “[f]ailing to permanently modify loans and/or provide alternatives to
24 foreclosure and using unfair means to keep Plaintiffs and the Plaintiff Class in temporary
25 modification contract” and by “charging and collecting Trail Period Plan payments from Class
26 members, but never extending permanent loan modification offers.” (Lucia Compl. at ¶ 104b;
27 Corvello Compl. at ¶ 110.)
28

1 “Every contract ‘imposes upon each party a duty of good faith and fair dealing in its
2 performance and its enforcement.’” *Fortaleza v. PNC Financial Services Group, Inc.*, 642 F.
3 Supp. 2d 1012, 1021 (N.D. Cal. 2009) (quoting *McClain v. Octagon Plaza, LLC*, 159 Cal. App.
4 4th 784, 798 (2008)). “To establish a breach of an implied covenant of good faith and fair
5 dealing, a plaintiff must establish the existence of a contractual obligation, along with conduct
6 that frustrates the other party’s rights to benefit from the contract.” *Id.* at 1021-22 (citations
7 omitted).

8 Because Plaintiffs have not sufficiently alleged the existence of a contract for
9 permanent loan modification, Wells Fargo’s motions to dismiss the claims for breach of the
10 implied covenant of good faith and fair dealing are GRANTED.

11 **4. Promissory Estoppel Claims.**

12 Plaintiffs contend that they detrimentally relied upon Wells Fargo’s promise of a
13 permanent modification if they completed three months of trial period payments and completed
14 documentation requirements. (*See, e.g.*, Lucia Compl. at ¶¶124-25; Corvello Compl. at ¶¶ 104-
15 05.) Promissory estoppel will bind a promisor “‘when he should reasonably expect a
16 substantial change of position, either by act or forbearance, in reliance on his promise, if
17 injustice can be avoided only by its enforcement.’” *Mehta v. Wells Fargo Bank, N.A.*, 737 F.
18 Supp.2d 1185, 1198 (S.D. Cal. 2010) (quoting *Raedeke v. Gibraltar Sav. & Loan Ass’n*, 10
19 Cal.3d 665, 672 n.1 (1974)). The elements of a promissory estoppel claim are “(1) a promise
20 that is clear and unambiguous in its terms; (2) reliance by the party to whom the promise is
21 made; (3) the reliance must be reasonable and foreseeable; and (4) the party asserting the
22 estoppel must be injured by his or her reliance.” *Boon Rawd Trading Intern. Co., Ltd. v.*
23 *Paleewong Trading Co., Inc.*, 688 F. Supp. 2d 940, 953 (N.D. Cal. 2010) (citation omitted).
24 “The purpose of this doctrine is to make a promise that lacks consideration (in the usual sense
25 of something bargained for and given in exchange) binding under certain circumstances.” *Id.*

26 As discussed above, the TPP Contract does not require Wells Fargo to modify an
27 applicant’s loan. HAMP did not, however, require that servicers verify eligibility prior to
28 accepting borrowers into the TPP until the program was amended by directive in January 2010:

1 “A significant program change is a requirement for full verification of borrower eligibility prior
2 to offering a trial period plan.” (SD 10-01 at 1, available at www.hmpadmin.com.)
3 Supplemental Directive 10-01 clarified that under the prior Supplemental Directive 09-01,
4 HAMP “gave servicers the option of placing a borrower into a trial period plan based on verbal
5 financial information obtained from the borrower, subject to later verification during the trial
6 period.” (*Id.*; see SD 09-01 at 17 (“Servicers are not required to verify financial information
7 prior to the effective date of the trial period.”)) The Supplemental Directive 10-01 amended
8 HAMP such that “[e]ffective for all HAMP trial period plans with effective dates on or after
9 June 1, 2010, a servicer may only offer a borrower a trial period plan based on verified income
10 documentation in accordance with this Supplemental Directive.” (*Id.*) The TPP Contract also
11 provides that the borrowers will provide documents to permit verification of income. (Corvello
12 Compl., Ex. G at ¶ G1.) Thus, at the time Plaintiffs were offered Trial Period modifications,
13 there was no promise that Plaintiffs would be found eligible for permanent loan modification on
14 which Plaintiffs could reasonably rely.

15 Regardless of any allegation of reasonable reliance, courts have determined that lenders
16 are not required under HAMP to modify eligible loans. See *Marks*, 2010 WL 2572988 at *3.
17 “Even Fannie Mae, which has rights under the [Servicer Participation] Agreement, cannot force
18 a participating servicer to make a particular loan modification.” *Id.* “A qualified borrower
19 would not be reasonable in relying on the Agreement as manifesting an intention to confer a
20 right on him or her because the Agreement does not require that [the participating servicer]
21 modify eligible loans.” *Escobedo v. Countrywide Home Loans, Inc.*, 2009 WL 4981618, at *3
22 (S.D. Cal. Dec. 15, 2009).

23 In *Escobedo*, the court determined that the SPA set forth Home Affordable Modification
24 Program Guidelines which provided that “[p]articipating servicers are required to *consider* all
25 eligible loans under the program guidelines unless prohibited by the rules of the applicable PSA
26 and/or other investor servicing agreements.” *Id.* (emphasis added in original). The *Escobedo*
27 court determined that the SPA Agreement under HAMP “does not state that [the servicer] must
28 modify all mortgages that meet the eligibility requirements.” *Id.* See also *Hoffman*, 2010 WL

1 2635773, at *4 (citing *Escobedo*); *Benito v. Indymac Mortgage Serv.*, 2010 WL 2130648, at *7
2 (D. Nev. May 21, 2010) (determining that HAMP does not confer on borrowers the right to
3 enforce the HAMP contract and that “even Fannie Mae, which has rights under the contract,
4 cannot force [the servicer] to make any particular loan modification”).

5 Having determined that Wells Fargo did not make promises about permanent loan
6 modification, the Court concludes that Plaintiffs fail to allege a claim for promissory estoppel.
7 *See Grill*, 2011 WL 127891, at *8. Wells Fargo’s motions to dismiss the claims for promissory
8 estoppel are therefore GRANTED.

9 **5. Breach of Contract Claim Under the SPA.**

10 Plaintiffs assert a breach of contract claim under the Servicer Participation Agreement
11 (“SPA”) between Well Fargo and Fannie Mae. (Lucia Compl. at ¶¶ 114-122; Corvello Compl.
12 at ¶¶ 95-101.) As many district courts in the Ninth Circuit have determined, individual
13 borrowers do not have standing to sue under the SPA because they are not intended third party
14 beneficiaries. In *Hoffman*, the court determined that borrower was “an incidental and not an
15 intended beneficiary to the HAMP servicer’s agreement.” 2010 WL 2635773, at *4 (N.D. Cal.
16 June 30, 2010) (citing *Klamath v. Patterson*, 204 F.3d 1206 (9th Cir. 1999) and distinguishing
17 *County of Santa Clara v. Astra USA, Inc.*, 588 F.3d 1237 (9th Cir. 2009)). *Hoffman* recognized
18 the weight of authority concluding that a borrower does not have enforceable rights under the
19 HAMP Servicer Participation Agreement, and the Court adopts the *Hoffman* court’s reasoning
20 to determine that Plaintiffs do not have standing to sue under the SPA. *Hoffman*, 2010 WL
21 2635773, at *3-4. *See also Morales*, Case No. 10-02068 JSW, at 12-13; *see also Orcilla v.*
22 *Bank of America, N.A.*, 2010 WL 5211507 (N.D. Cal. Dec. 16, 2010) (disagreeing with
23 *Marques v. Wells Fargo Home Mortg.*, 2010 WL 3212131 (S.D. Cal. Aug. 12, 2010)). Wells
24 Fargo’s motions to dismiss the claim for relief for breach of the SPA contract are therefore
25 GRANTED.

26 **6. Rosenthal Act Claim.**

27 The Lucia Plaintiffs allege that Wells Fargo has violated the Rosenthal Act by making
28 false and deceptive representations in connection with collection of a debt. (Lucia Compl. at ¶

1 89.) The Lucias contend that Wells Fargo made misrepresentations “in connection with the
2 collection of any debt,” or using “unfair or unconscionable means to collect or attempt to collect
3 any debt” pursuant to Section 1788.17 of the California Civil Code, which incorporates by
4 reference certain provisions of the Fair Debt Collection Practices Act (“FDCPA”), 15 U.S.C. §§
5 1692(e) and (f). (*Id.*)

6 Wells Fargo does not dispute Plaintiffs’ allegation that it is a debt collector within the
7 meaning of the Rosenthal Act, but contends that Plaintiffs fail to allege a “demand” for payment
8 of delinquent debt. (Reply at 13-14 (citing *Walcker v. SN Commercial, LLC*, 286 Fed. Appx
9 455, 457 (9th Cir. 2008).) In *Walcker*, the Ninth Circuit determined that the loan servicer’s
10 letters to plaintiffs were informational and not “demands for payment” in violation of the
11 requirements for communications “in the collection of a claim” under Washington state law.
12 286 Fed. Appx. at 457 (citing *Bailey v. Sec. Nat’l Servicing Corp.*, 154 F.3d 384, 388-89 (7th
13 Cir. 1998)). Unlike the informational letters in *Walcker*, Plaintiffs allege that the
14 communications from Wells Fargo demanded three Trial Period payments and indicate that the
15 borrower is required to pay the debt. These allegations are sufficient to demonstrate a demand
16 for payment in support of a Rosenthal Act claim.

17 To evaluate claims under the Rosenthal Act, the Court must consider whether the
18 alleged communications from the debt collector would likely mislead the “least sophisticated
19 debtor.” *Guerrero v. RJM Acquisitions LLC*, 499 F.3d 926, 934 (9th Cir. 2007) (citing *Swanson*
20 *v. S. Oregon Credit Serv., Inc.*, 869 F.2d 1222, 1229 (9th Cir. 1989).) Plaintiffs contend that
21 Wells Fargo misled borrowers into believing that Wells Fargo screens borrowers for eligibility
22 and determines that borrowers qualify for HAMP before placing them into Trial Periods so that
23 they would be entitled to permanent modification if they successfully complete the Trial Period.
24 (Opp. Br. at 23.)

25 The “least sophisticated debtor” standard is an objective one. *Swanson*, 869 F.2d at
26 1227. Under that standard, the Court determines that the alleged communications do not
27 constitute false, deceptive or misleading statements that Wells Fargo promised a permanent loan
28 modification if the borrower successfully makes three Trial Period payments. The TPP

1 Contract operative at the time states that the TPP “is not a modification of the Loan
2 Documents” and that “the Lender will not be obligated or bound to make any modification of
3 the Loan Documents if I fail to meet any one of the requirements under this Plan.” (Corvello
4 Compl., Ex. G at ¶ 2.G.) The title of the TPP Contract indicates that the TPP is the first step of
5 a “Two-Step Documentation Process.” (*Id.*) Plaintiffs have not demonstrated that the TPP
6 Contract or other modification-related communications were false, deceptive or misleading.
7 *See Wade v. Regional Credit Ass’n*, 87 F.3d 1098, 1100 (9th Cir. 1996) (collection agency did
8 not violate Section 1692e where notice correctly told plaintiff that she had an unpaid debt, and
9 properly informed her that failure to pay might adversely affect her credit reputation).

10 Therefore, Wells Fargo’s motion to dismiss the Lucias’ claim for relief for violation of
11 the Rosenthal Act is GRANTED.

12 7. UCL Claim.

13 Both sets of Plaintiffs allege that Wells Fargo used unfair, deceptive and unlawful
14 means to induce Plaintiffs to enter into Trial Period modifications and deny Plaintiffs permanent
15 modification in violation of the California Business and Professions Code section 17200
16 (“UCL” or “Section 17200”). (Lucia Compl. at ¶ 95; Corvello Compl. at ¶ 117.) Under
17 Section 17200, unfair competition is defined as “any unlawful, unfair or fraudulent business act
18 or practice” and “unfair, deceptive, untrue or misleading advertising.” *See* Cal. Bus. & Prof.
19 Code § 17200.

20 The Lucias’ complaint alleges that Wells Fargo’s unfair business practices include
21 “[f]ailing to perform loan servicing functions consistent with its responsibilities to Plaintiffs and
22 the Plaintiff Class and its responsibilities under HAMP.” (Lucia Compl. at ¶ 94a.) Plaintiffs do
23 not dispute that HAMP does not create a private right of action. *See Marks*, 2010 WL 2572988
24 at *5-6. The Lucias therefore may not assert a UCL claim based on alleged violations of
25 HAMP because the UCL cannot create a private right of action where none exists under the
26 federal statute. *Aleem v. Bank of America*, 2010 WL 532330 (C.D. Cal. Feb. 9, 2010) (citing
27 *Summit Tech., Inc. v. High-Line Med. Instruments Co., Inc.*, 922 F. Supp. 299, 316 (C.D. Cal.
28 1996)).

1 The Lucias' complaint also alleges that Wells Fargo engages in unlawful business
 2 practices by violating the Rosenthal Act. (Lucia Compl. at ¶ 93.) Both complaints further
 3 allege that Wells Fargo engages in fraudulent conduct by making misrepresentations and
 4 omissions of fact about permanent loan modifications which induced Plaintiffs to enter the TPP
 5 Contracts. (Lucia Compl. at ¶ 95a; Corvello Compl. at ¶ 117.) As the Court has determined
 6 that the TPP Contract makes no promise of permanent modification and has dismissed those
 7 claims on which the UCL claim is predicated, the Court GRANTS Wells Fargo's motions to
 8 dismiss both sets of Plaintiffs' claims for relief for violation of Section 17200. *See Rubin v.*
 9 *Wal-Mart Stores, Inc.*, 599 F. Supp. 2d 1176, 1179 (N.D. Cal. 2009) (holding that where a UCL
 10 claim is predicated upon other claims that fail, the UCL claim must be dismissed as well).⁴

11 CONCLUSION

12 For the foregoing reasons, the Court GRANTS Wells Fargo's motions to dismiss the two
 13 related complaints without leave to amend. Separate judgments shall issue. The clerk shall
 14 close both files.

15
 16 **IT IS SO ORDERED.**

17 Dated: April 22, 2011

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 19 _____
 20 JEFFREY S. WHITE
 21 UNITED STATES DISTRICT JUDGE

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⁴ Similarly, as the Court has found there is no underlying viable claim for liability, Corvello's claim for declaratory relief is dismissed.