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

EUGENE PEREZ, et al.,

Plaintiffs,

v.

WELLS FARGO BANK, N.A., et al.,

Defendants.

Case No.: C-11-02279 JCS

**ORDER GRANTING PLAINTIFFS’  
MOTION TO REMAND; DENYING  
DEFENDANTS’ MOTIONS TO  
DISMISS**

**I. INTRODUCTION**

Plaintiffs Eugene Perez and Herenia Perez (“Mrs. Perez”) (“Plaintiffs”) allege four causes of action against Defendants Wells Fargo Bank, N.A. (“Wells Fargo”) and First American Loanstar Trustee Services LLC (“Loanstar”) (“Defendants”) arising out of the events surrounding the foreclosure sale of Plaintiffs’ real property located at 95 Monterey Drive, Daly City, California (“Property”). Presently before the Court are three Motions: (1) Plaintiffs’ Motion to Remand Case to State Court (“Motion to Remand”); (2) Wells Fargo’s Motion to Dismiss Plaintiff’s Second Amended Complaint (“Wells Fargo Motion”); and (3) Loanstar’s Motion to Dismiss Plaintiff’s Second Amended Complaint (“Loanstar Motion”). A hearing on the Motions was held on February 15, 2013 at 9:30 a.m. For the reasons discussed below, the Court GRANTS Plaintiffs’ Motion to Remand and DENIES both Defendants’ Motions to Dismiss.<sup>1</sup>

**II. REQUESTS FOR JUDICIAL NOTICE**

Wells Fargo and Loanstar have each filed a request for judicial notice of various documents that they are assert are either matters of public record or directly referenced in Plaintiffs’ Second Amended Complaint (“SAC”). See Docket Nos. 62 & 65 (hereinafter “Wells Fargo RJN” and

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<sup>1</sup> The parties have consented to the jurisdiction of a United States Magistrate Judge pursuant to 28 U.S.C. § 636(c).

1 “Loanstar RJN”). Plaintiffs have not objected to Defendants’ requests or challenged the authenticity  
2 of any of the attached documents. Each of the documents is either a public record or is referenced in  
3 the SAC. Accordingly, the Court takes judicial notice of all of the documents offered in Defendants’  
4 requests for judicial notice pursuant to Rule 201 of the Federal Rule of Evidence. The Court may  
5 consider the documents of which it takes judicial notice, along with the allegations of Plaintiff’s  
6 Complaint, on a motion to dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure. *See*  
7 *Catholic League for Religious and Civil Rights v. City and County of San Francisco*, 464 F.Supp.2d  
8 938, 941 (N.D. Cal. 2006).

### 9 **III. BACKGROUND**

#### 10 **A. The Second Amended Complaint**

11 Plaintiffs state that Mrs. Perez refinanced the Property on August 17, 2007 by borrowing  
12 \$525,000.00 from Wells Fargo. SAC, ¶ 10. The 8.5% interest only loan was secured by a deed of  
13 trust on the Property. *Id.* The monthly interest only payment was \$3,718.75. *Id.*

14 As of October 2008, Mrs. Perez had missed two payments on the note. *Id.* at ¶ 11. Wells  
15 Fargo offered her a forbearance agreement under which it would agree to modify the loan if she made  
16 three monthly payments of \$4,917.59 beginning on November 30, 2008, and one payment of  
17 \$8,432.94 on February 28, 2009. *Id.* Plaintiffs contend that the forbearance agreement, with its  
18 increased monthly payments, was an unconscionable contract of adhesion. *Id.* at ¶ 12. Mrs. Perez  
19 made the first two payments, but was unable to make the last two payments. *Id.*

20 On March 18, 2009, Wells Fargo recorded a notice of default. *Id.* at ¶ 13. A trustee’s sale was  
21 scheduled for July 9, 2009. *Id.* The sale was postponed after Plaintiffs filed a number of bankruptcy  
22 petitions beginning in April 2009. *Id.* At some point, the sale was set for November 24, 2009. *Id.* at  
23 ¶ 14. In November 2009, Mrs. Perez retained an attorney, John P. Skowronski (“Skowronski”) to  
24 assist her in applying for a loan modification. *Id.* Pursuant to Wells Fargo’s policy, the sale was  
25 postponed a number of times pending its consideration of Mrs. Perez’s application. *Id.* at ¶¶ 14-15.  
26 The date was pushed back to December 14, 2009, then to January 25, 2010, then to February 24,  
27 2010. *Id.* at ¶ 15.

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1 On February 11, 2010, a Wells Fargo agent named Amanda informed Skowronski that  
2 Plaintiffs' property was out of foreclosure. *Id.* at ¶ 16. Wells Fargo delayed in processing Mrs.  
3 Perez's application for a loan modification until June 17, 2010. *Id.* at ¶ 17. At that point, a Wells  
4 Fargo manager named Jost Farber notified Skowronski that the case was being transferred from  
5 Amanda to Kelly. *Id.* That same day, Kelly requested documents from Mrs. Perez. *Id.* On June 22,  
6 2010, Dr. Nicholas Agbabiaka ("Agbabiaka") faxed Wells Fargo the requested documents on Mrs.  
7 Perez's behalf. *Id.* at ¶ 18. The next day, June 23, 2010, Agbabiaka called Kelly to confirm that he  
8 had faxed the requested documents to the correct number. *Id.* at ¶ 19.

9 At some point, the foreclosure sale was rescheduled for June 28, 2010. *See id.* During the  
10 June 23, 2010 phone call, Kelly confirmed to Agbabiaka that the June 28, 2010 foreclosure sale had  
11 been canceled. *Id.* On June 26, 2010, Agbabiaka called Loanstar's status line to check the status of  
12 the June 28, 2010 foreclosure sale. *Id.* at ¶ 20. The recorded message stated that the sale had been  
13 canceled. *Id.* Agbabiaka, Mrs. Perez, and Agbabiaka's associate Alexander Nixon heard the recorded  
14 message. *Id.* Even so, the foreclosure sale was held on June 28, 2010. *Id.* at ¶ 21.

15 Plaintiffs allege that there were no bidders at the foreclosure sale, so the property reverted to  
16 Wells Fargo. *Id.* A trustee's deed was recorded on July 2, 2010. *Id.* At the time of the sale,  
17 Plaintiffs allege that Wells Fargo stated that Mrs. Perez owed \$617,953.10 on the loan. *Id.* Plaintiffs  
18 contend that the fair market value of the house on the date of the sale was \$740,000.00. *Id.* at ¶ 24.  
19 Wells Fargo ultimately sold the house to a third party on or about March 30, 2011 for approximately  
20 \$645,000.00. *Id.* at ¶ 25.

21 In a letter dated August 10, 2010, Plaintiffs contend that Wells Fargo notified Mrs. Perez that  
22 intended to modify her loan by reducing the interest rate such that her interest only payment was  
23 going to be reduced by \$1,093.75 to \$2,625.00. *Id.* at ¶ 22. Plaintiffs were evicted from the Property  
24 in or around December 2010, and were unable to collect all of their personal belongings. *Id.* at ¶ 23.

25 Plaintiffs allege four causes of action:

26 (1) Violation of the Rosenthal Fair Debt Collection Practices Act ("Rosenthal Act"),  
27 California Civil Code Sections 1788, et seq., by Defendant Wells Fargo: Plaintiffs contend that  
28 Wells Fargo was a debt collector engaged in debt collection practices within the meaning of the

1 Rosenthal Act because it was collecting on a mortgage debt pursuant to the terms of the loan. *Id.* at ¶  
2 28. Plaintiffs allege that Wells Fargo knowingly and willfully violated the Rosenthal Act by using  
3 false, deceptive, and misleading statements in connection with its collection of Plaintiffs' debt. *Id.* at  
4 ¶ 29. Plaintiffs base their claim on the allegation that Wells Fargo falsely told their agent that the sale  
5 scheduled for June 28, 2010 had been canceled thereby deceiving and misleading them into believing  
6 that the sale would not proceed. *Id.* at ¶¶ 30-31. Plaintiffs contend that this statement caused them to  
7 lose equity in their property, to lose their personal property, and to suffer severe emotional distress.  
8 *Id.* at ¶ 32.

9 (2) Violation of California Business and Professions Code Sections 17200, et seq.  
10 ("UCL"), by both Defendants: Plaintiffs allege that Wells Fargo engaged in unfair and fraudulent  
11 business practices in violation of the UCL when it induced Mrs. Perez to enter into the forbearance  
12 agreement as a means of curing a two-month delinquency. *Id.* at ¶ 35. Plaintiffs contend that Wells  
13 Fargo knew or should have known that Mrs. Perez could not afford the higher forbearance payments  
14 so she was bound to default on the arrangement. *Id.* Plaintiffs also contend that Wells Fargo knew or  
15 should have known that it would be able to commence foreclosure proceedings as soon as the note  
16 was three months delinquent. *Id.*

17 Plaintiffs further allege that Wells Fargo engaged in unfair, fraudulent, and unlawful business  
18 practices in violation of the Rosenthal Act when its agent falsely told Mrs. Perez's agent that the  
19 trustee sale scheduled for June 28, 2010 had been canceled pending a decision on her application for a  
20 loan modification. *Id.* at ¶¶ 36, 38. Similarly, Plaintiffs allege that Loanstar engaged in unfair,  
21 fraudulent, and unlawful business practices in violation of the Rosenthal Act when it falsely notified  
22 Plaintiffs, via a recorded message, that the June 28, 2010 trustee's sale had been canceled. *Id.* at ¶¶  
23 37-38.

24 Plaintiffs claim that Defendants UCL violations caused them to lose equity in their property,  
25 lose personal property, and suffer severe emotional distress. *Id.* at ¶ 39.

26 (3) Wrongful Foreclosure, California Civil Code Sections 2924, et seq., by both  
27 Defendants: Plaintiffs allege that Defendants violated the notice provisions of California Civil Code  
28 section 2924 by proceeding with the foreclosure sale even though they had given notice that the June

1 28, 2010 sale had been canceled. *Id.* at ¶¶ 42-43. Plaintiffs claim that this caused them to lose equity  
2 in their property, lose personal property, and suffer severe emotional distress. *Id.* at ¶ 44.

3 (4) Negligence by Wells Fargo: Plaintiffs allege that Wells Fargo had a duty to use  
4 reasonable care in processing Mrs. Perez’s application for a loan modification. *Id.* at ¶ 45.<sup>2</sup> Plaintiffs  
5 allege that Wells Fargo breached that duty by selling Plaintiffs’ Property at the trustee sale even  
6 though Wells Fargo was still considering Mrs. Perez’s application for a loan modification and told her  
7 agent that the sale had been canceled. *Id.* at ¶ 46. Plaintiffs claim that, as a proximate result of this  
8 negligence, they lost equity in their property, lost personal property, and suffered severe emotional  
9 distress. *Id.* at ¶ 47.

10 **B. Motion to Remand**

11 **1. Motion**

12 Plaintiffs move to remand the proceedings to state court. First, Plaintiffs argue that the Court  
13 retains no federal question jurisdiction over this case because the Court dismissed Plaintiffs’ lone  
14 federal cause of action, a Truth in Lending Act (“TILA”) claim, and that claim is not put forward in  
15 the SAC. Motion to Remand, 3, 6-7. Second, Plaintiffs contend that no diversity jurisdiction exists  
16 because Wells Fargo is a citizen of California and South Dakota. *Id.* at 4. (citing *Horton v. Bank One,*  
17 *N.A.*, 387 F.3d 426, 436 (5th Cir. 2004) (national bank is a citizen of the state listed in its articles of  
18 association and the state where its principal place of business is located); *Firststar Bank v. Faul*, 253  
19 F.3d 982, 994 (7th Cir. 2001) (same)).

20 Third, Plaintiffs argue that, because the federal claim was dismissed and diversity is lacking,  
21 the Court must decide whether to exercise supplemental jurisdiction or to remand the case to state  
22 court. *Id.* at 7 (citing *Millar v. Bay Area Rapid Transit Dist.*, 236 F.Supp.2d 1110, 1119 (N.D. Cal.  
23 2002)). Plaintiffs contend that the relevant factors – judicial economy, convenience, fairness, and  
24 comity – militate in favor or remand. *Id.* at 8 (citing *Millar*, 236 F.Supp.2d at 1119). Plaintiffs state  
25 that the case is about a year from trial because no discovery has been conducted after the filing of the  
26 SAC, and trial preparation should be conducted in state court as state law will apply. *Id.* at 8-10.  
27 Plaintiffs contend that fairness considerations also favor remand, because the federal law for

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<sup>2</sup> The SAC contains two paragraphs numbered 45. This citation refers to the second of those paragraphs.

1 facilitating settlements is more favorable to Defendants whereas the state law for facilitating  
2 settlements is more balanced. *Id.* at 10-11 (citing Cal. Code Civ. P. § 998; Fed. R. Civ. P. § 68).  
3 Plaintiffs argue that convenience does not cut either way, as the relevant courthouses are within thirty  
4 miles of each other. *Id.* at 11. Finally, Plaintiffs state that they did not engage in forum shopping. *Id.*  
5 at 11-12.

## 6 2. Opposition

7 Wells Fargo opposes the Motion to Remand for two reasons.<sup>3</sup> First, Wells Fargo contends that  
8 there is complete diversity among the parties.<sup>4</sup> Wells Fargo’s Opposition to Motion to Remand  
9 (“Opposition to Remand”), 3-17.

10 Wells Fargo contends that it is a citizen of South Dakota, not California. *Id.* at 3, 13-14 (citing  
11 a number of District Court opinions in California reaching the same conclusion). Wells Fargo relies  
12 on *Wachovia Bank v. Schmidt*, 546 U.S. 303, 317 n.9, 126 S.Ct. 941, 163 L.Ed.2d 797 (2006). *Id.* In  
13 *Schmidt*, the Supreme Court held that a national bank is a citizen of the state in which its main office,  
14 as set forth in its articles of incorporation, is located. *Id.* Wells Fargo’s main office, as set forth in its  
15 articles of incorporation, is located in Sioux Falls, South Dakota. *Id.* Wells Fargo acknowledges that  
16 *Schmidt* did not decide whether a citizen of a second state wherein its principal place of business is  
17 located. *Id.* at 4.

18 Wells Fargo argues that *Schmidt* abrogates *American Surety Co. v. Bank of California*, 133  
19 F.2d 160 (9th Cir. 1943). *Id.* at 5-7. *American Surety*, Ninth Circuit authority holding that a national  
20 bank is only a citizen of the state in which its principal place of business is located. *Id.* Wells Fargo  
21 argues that this conclusion is irreconcilable with the *Schmidt* court’s holding that a national bank is a  
22 citizen of the state where its main office is located, as identified in its articles of incorporation. *Id.* at  
23 7. In addition, Wells Fargo contends that *American Surety* was abrogated by statute, as 12 U.S.C. §  
24 36(g)(3)(B) now identifies the term “home State” to mean “the State in which the main office of a  
25 national bank is located.” *Id.* at 8. Wells Fargo notes, in particular, that “State” is used in the  
26 singular. *Id.* Wells Fargo proceeds to argue that *American Surety* was wrongly decided because, at  
27 the time, the principal place of business test was not used for corporations. *Id.* at 9 (citing *Hertz Corp.*

28 <sup>3</sup> Loanstar did not file an opposition to the Motion to Remand.

<sup>4</sup> Wells Fargo does not argue that federal question jurisdiction exists in this case.

1 *v. Friend*, 559 U.S. 77, 130 S.Ct. 1181, 1187-1190, 175 L.Ed.2d 1029 (2010)). Finally, Wells Fargo  
2 contends that *American Surety* merely assumed the principal place of business test was the standard  
3 for determining a national bank's citizenship. *Id.* at 11.

4 Wells Fargo implicitly concedes that Loanstar is a citizen of California. Wells Fargo argues  
5 that Loanstar's citizenship should be disregarded because it was either fraudulently joined or it is a  
6 nominal defendant. *Id.* at 14-17. Wells Fargo argues that Loanstar was fraudulently joined because  
7 (1) there is no possibility Plaintiffs will establish a cause of action in state court against Loanstar; and  
8 (2) Plaintiffs have little interest in prosecuting a claim against Loanstar but strategically amended  
9 their First Amended Complaint to bring Loanstar back into the lawsuit to destroy diversity  
10 jurisdiction. *Id.* at 14-16 (citing *Moreno v. Wells Fargo*, 2011 WL 6372637, at \*5-\*6 (N.D. Cal. Dec.  
11 20, 2011)). Wells Fargo alternatively contends that Loanstar is a nominal defendant. *Id.* at 16-17.  
12 Wells Fargo states that a nominal defendant is one, such as a trustee, that holds the subject matter of  
13 the litigation in a subordinate or possessory capacity and is joined to facilitate collection. *Id.* at 16  
14 (citing *S.E.C. v. Colello*, 139 F.3d 674, 676 (9th Cir. 1998)). Wells Fargo concedes that substantive  
15 allegations against the trustee can mean that the trustee is no longer a nominal party. *Id.* (citing  
16 *Beiermann v. JP Morgan Chase Bank, N.A.*, 2012 WL 1377094, at \*2 (W.D. Wash. Apr. 19, 2012)).  
17 Wells Fargo argues that there are insufficient substantive allegations against Loanstar to make it any  
18 more than a nominal party. *Id.* at 17.

19 Second, Wells Fargo argues that, if the Court finds diversity jurisdiction is lacking, it should  
20 exercise its supplemental jurisdiction over this case. *Id.* at 17-18. Wells Fargo states that this is  
21 proper because (1) the complaint has been amended twice before this Court; (2) there would be a  
22 significant delay before a demurrer would be heard in state court; and (3) Wells Fargo has put  
23 substantial effort and resources into litigating this case for a prolonged period of time and remand  
24 would force them to begin anew. *Id.* at 18.

### 25 3. Reply

26 Plaintiffs contend that the *Schmidt* court would have held that the principal place of business  
27 standard applies to national banks if it had been required to reach the issue. Plaintiff's Reply in  
28 Support of Motion to Remand, 1-6. Plaintiffs argue that this result would put national banks on equal

1 footing with state banks and other state-incorporated entities. *Id.* at 4-5. In addition, Plaintiffs  
2 contend that *American Surety* remains binding precedent. *Id.* at 6-10 (citing a number of California  
3 District Court opinions following *American Surety* after *Schmidt* was decided). Plaintiffs state that  
4 only one other Ninth Circuit case addressed the issue of a national bank’s citizenship for diversity  
5 purposes. *Id.* at 7. That case followed *American Surety*. *Id.* at 7 n.1 (citing *Bank of California, N.A.*  
6 *v. Twin Harbors Lumber Co.*, 465 F.2d 489 (9th Cir. 1972) (“The Bank, for diversity purposes, is a  
7 ‘citizen’ of California”)).

8 Next, Plaintiffs contend that Loanstar was not strategically returned to the case for the  
9 purposes of defeating diversity. *Id.* at 12. Plaintiffs argue that their attorney was unaware of  
10 Loanstar’s citizenship until it was addressed in Wells Fargo’s Opposition. *Id.* Plaintiffs state that  
11 they are now aware that Loanstar is a California citizen. *Id.* at 11 (citing Declaration of Ronald W.  
12 Carter, ¶¶ 2-3). In addition, Plaintiffs argue that they can state a claim against Loanstar, which is  
13 more than a nominal defendant, because Loanstar announced that the sale was canceled before  
14 executing the sale. *Id.* at 13.

### 15 C. Motions to Dismiss

#### 16 1. Wells Fargo Motion

17 (1) Rosenthal Act: Wells Fargo states that Plaintiffs’ Rosenthal Act claim is based on the  
18 allegation that Wells Fargo “falsely told Mrs. Perez’s agent that the trustee that was scheduled for  
19 June 28, 2010, had been cancelled pending a decision on her application for a loan modification.”  
20 Wells Fargo Motion, 7 (citing SAC, ¶ 30). Wells Fargo argues that this claim fails for two reasons.  
21 First, Wells Fargo contends that the Rosenthal Act claim fails because foreclosure related actions do  
22 not implicate the Act. *Id.* (citing *Reyes v. Wells Fargo Bank*, 2011 WL 30759, at \*19 (N.D. Cal. Jan.  
23 3, 2011) (“the mere allegation that a defendant foreclosed on a deed of trust does not implicate the  
24 Rosenthal Act”)). Wells Fargo concedes that a remedy may exist under the Rosenthal Act where the  
25 alleged debt collection activities go “beyond the scope of the ordinary foreclosure process.” *Id.* at 7-8  
26 (quoting *Walters v. Fidelity Mortg. of Cal., Inc.*, 720 F.Supp.2d 1185 (E.D. Cal. 2010) (involving a  
27 “pattern or improper conduct”)). Wells Fargo argues that it has not engaged in debt collection  
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1 activities beyond the scope of the ordinary foreclosure process because its actions amounted to several  
2 attempts to assist Plaintiffs in avoiding foreclosure. *Id.* at 8.

3 Second, Wells Fargo argues that any statement it made to the effect that the June 28, 2010  
4 foreclosure sale was canceled amounted to a gratuitous oral promise that is unenforceable under the  
5 statute of frauds. *Id.* at 8-10 (citing *Mehta v. Wells Fargo Bank, N.A.*, 737 F.Supp.2d 1185, 1197  
6 (S.D. Cal. 2010)). Wells Fargo also notes that Plaintiffs have not alleged how they would have  
7 modified their behavior absent the alleged misinformation. *Id.* at 9. Wells Fargo contends that  
8 Plaintiffs would have been unable to do anything to prevent foreclosure, given their financial  
9 circumstances. *Id.*

10 (2) UCL: Wells Fargo argues that Plaintiffs failed to state a claim under the UCL for four  
11 reasons. *Id.* at 10-12. First, Wells Fargo argues that Plaintiffs seek damages, but damages are  
12 unavailable under the statute. *Id.* at 10 (citing *Nat'l Rural Telecomms. Co-op v. DIRECTV, Inc.*, 319  
13 F.Supp.2d 1059, 1078 (C.D. Cal. 2003); *Bank of the West v. Superior Court*, 2 Cal.4th 1254, 1266, 10  
14 Cal.Rptr.2d 538, 833 P.2d 545 (1992); *Oracle Corp. v. DrugLogic, Inc.*, 2011 WL 5576267, at \*9  
15 (N.D. Cal. Nov. 16, 2011)).

16 Second, Wells Fargo contends that any oral representation by Wells Fargo or Loanstar that the  
17 June 28, 2010 foreclosure sale was canceled constituted an unenforceable gratuitous oral promise. *Id.*  
18 at 10-11 (citing *Mehta*, 737 F.Supp.2d at 1197). In addition, Wells Fargo contends that Plaintiffs have  
19 not explained how they would have altered their behavior in the absence of this oral misinformation.  
20 *Id.* at 11.

21 Third, Wells Fargo argues that it was no longer considering Plaintiffs for loan modification at  
22 the time of foreclosure. *Id.* Wells Fargo contends that the letter Plaintiffs identify as a modification  
23 was merely a standard notice of a change in interest rate that would have applied if Mrs. Perez had  
24 kept up with her original payments. *Id.* In addition, Wells Fargo contends that it was never under any  
25 obligation to consider Plaintiffs for a loan modification. *Id.* at 12 (citing *Hamilton v. Greenwich*  
26 *Investors XXVI, LLC*, 195 Cal.App.4th 1602, 1617, 126 Cal.Rptr.3d 174 (2011)).

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1 Fourth, Wells Fargo contends that it did not violate the UCL by offering Mrs. Perez a  
2 forbearance agreement. *Id.* at 12. Wells Fargo states that the SAC identifies no authority to the  
3 contrary. *Id.*

4 (3) Wrongful Foreclosure: Wells Fargo argues that Plaintiffs’ wrongful foreclosure claim  
5 fails under the tender rule. *Id.* at 13 (citing Order Granting Defendants’ Motion to Dismiss Plaintiffs’  
6 Complaint (“Dkt. No. 25”), 26:7-19).

7 (4) Negligence: Wells Fargo states that Plaintiffs’ negligence claim is premised on the  
8 completion of the foreclosure sale while Wells Fargo was considering Plaintiffs’ application for a loan  
9 modification. *Id.* at 14 (citing SAC, ¶ 46). Wells Fargo contends that it did not owe Plaintiffs any  
10 duty because it did not exceed its traditional role as a lender of money. *Id.* (citing *Nymark v. Heart*  
11 *Fed. Sav. & Loan Ass’n*, 231 Cal.App.3d 1089, 1095-1096 (1991)).

## 12 2. Loanstar Motion

13 Loanstar contends that it is immune from liability because its acts as a trustee are privileged.  
14 Loanstar Motion, 4-5 (citing Cal. Civ. Code §§ 47, 2924(d); *Kachlon v. Markowitz*, 168 Cal.App.4th  
15 333-334, 85 Cal.Rptr.3d 352 (2008)). Loanstar notes that Plaintiffs’ only allegation of wrongful  
16 conduct on the part of Loanstar is that it falsely notified Plaintiffs that the June 28, 2010 foreclosure  
17 sale had been canceled but proceeded with the sale. *Id.* at 4. Loanstar contends that this allegation is  
18 insufficient to break its immunity because Plaintiffs did not allege that Loanstar acted with malice.  
19 *Id.* at 5 (citing *Kachlon*, 168 Cal.App.4th at 333-334, 339-342, 85 Cal.Rptr.3d 352). In addition,  
20 Loanstar argues that Plaintiffs’ allegation is incorrect because an automated message cannot serve as  
21 notice of a sale cancelation. *Id.* at 7 (citing Cal. Civ. Code § 2924g(c)). Loanstar also states that  
22 Plaintiffs have not alleged any actions beyond its statutorily protected role of a foreclosure trustee,  
23 executed in good faith reliance on instructions given in good faith by Wells Fargo. *Id.* at 5-6.

24 (1) UCL: Loanstar states that a UCL claim must rely on underlying unlawful, unfair, or  
25 fraudulent conduct. *Id.* at 8 (citing *Bernardo v. Planned Parenthood Federation of America*, 115  
26 Cal.App.4th 322, 9 Cal.Rptr.3d 197 (2004)). First, Loanstar contends that Plaintiffs have not satisfied  
27 the “fraudulent” prong because they have not alleged the underlying fraud with particularity. *Id.*  
28 (citing *Swartz v. KPMG LLP*, 476 F.3d 756, 764 (9th Cir. 2007)). Next, Loanstar asserts that the UCL

1 claim fails because Plaintiffs have not alleged how they were damaged by Loanstar’s putative  
2 wrongful conduct. *Id.* at 8-9. Specifically, Loanstar states that Plaintiffs have not explained what  
3 they could have done to avoid foreclosure in the absence of the information on the automated line. *Id.*  
4 In addition, Loanstar argues that Plaintiffs have not alleged any elements of emotional distress, that  
5 they had any equity in their property to begin with, or that they lost any personal property. *Id.* at 9.  
6 Loanstar does not directly address the “unlawful” or “unfair” prongs. Loanstar does note that  
7 “unlawful” conduct must be alleged in terms of the statute violated, implying that Plaintiffs failed to  
8 do so. *Id.* at 8.

9 (2) Wrongful Foreclosure: Loanstar asserts that Plaintiffs’ wrongful foreclosure claim  
10 fails under the tender rule. *Id.* at 6. In addition, Loanstar argues that Plaintiffs have no claim for  
11 wrongful foreclosure because they were not given statutory notice that the foreclosure sale had been  
12 postponed or canceled. *Id.* at 7 (citing Cal. Civ. Code § 2924g(c)).

### 13 3. Opposition to Each Motion

14 Plaintiffs opposed each motion to dismiss. As a general matter, Plaintiffs argue that Loanstar  
15 is not immune from liability where it conducted the trustee sale after giving notice that the sale had  
16 been canceled. Opposition to Loanstar’s Motion to Dismiss (“Opposition to Loanstar”), 7-9.  
17 Plaintiffs contend that malice is apparent where the trustee went forward with a sale that it had  
18 previously canceled. *Id.* at 9. In addition, Plaintiffs state that there is nothing in the SAC to show that  
19 Loanstar acted in good faith reliance on any information given to it in good faith by Wells Fargo. *Id.*  
20 at 7.

21 (1) Rosenthal Act: Plaintiffs assert that their SAC demonstrates action beyond the scope  
22 of the ordinary foreclosure process because they alleged that (a) the forbearance agreement required  
23 Mrs. Perez to make higher monthly payments, driving her into foreclosure, and that (b) Wells Fargo  
24 delayed in processing Mrs. Perez’s loan modification application, told Mrs. Perez’s agent on February  
25 11, 2010 that her property was out of foreclosure, told Mrs. Perez’s agent on June 22, 2010 that the  
26 June 28, 2010 sale had been canceled, and thereafter proceeded with the June 28, 2010 sale.  
27 Opposition to Wells Fargo’s Motion to Dismiss (“Opposition to Wells Fargo”), 3-4. Plaintiffs argue  
28 that Wells Fargo’s arguments premised on the statute of frauds are inapplicable here because Plaintiffs

1 are not attempting to enforce an agreement. *Id.* at 4-6. Plaintiffs finally note that the use of the word  
2 “canceled” instead of “postponed” indicated that the entire foreclosure process would have had to be  
3 initiated from scratch. *Id.* at 6.

4 (2) UCL: Plaintiffs contend that their SAC contains a viable UCL cause of action. First,  
5 Plaintiffs assert that they described “unfair” business practices, regardless of whether they established  
6 “fraudulent” business practices. Opposition to Loanstar, 6. Second, Plaintiffs contend that they  
7 sufficiently pled “unlawful” business practices by both parties based on violations of the Rosenthal  
8 Act. *Id.* Third, Plaintiffs argue that they are permitted to seek money damages under the UCL.  
9 Opposition to Wells Fargo, 6-7 (citing Cal. Bus. & Prof. Code § 17203). Fourth, Plaintiffs state that  
10 they alleged loss of equity in their home based on the difference between the market value of the  
11 home and the outstanding debt they owed Wells Fargo. Opposition to Loanstar, 5; Opposition to  
12 Wells Fargo, 7. Plaintiffs contend that they did not need to establish the elements of emotional  
13 distress because they did not allege a distinct emotional distress-based cause of action. Opposition to  
14 Loanstar, 5. Fifth, Plaintiffs argue that Wells Fargo’s argument premised on the unenforceable nature  
15 of gratuitous oral promises fails for the same reasons as set forth addressing the Rosenthal Act claim.  
16 Opposition to Wells Fargo, 7-8. Sixth, Plaintiffs contend that whether the August 10, 2010 letter to  
17 Mrs. Perez constituted an attempt to grant her request for a loan modification is a question of fact that  
18 cannot be resolved on a motion to dismiss. *Id.* at 8.

19 (3) Wrongful Foreclosure: Plaintiffs assert that the tender rule is inapplicable here for two  
20 reasons. First, Plaintiffs argue that the tender rule does not apply where, as here, they are suing for  
21 damages as opposed to equitable relief. Opposition to Loanstar, 1-4 (citing *Arnolds Mgmt. Corp. v.*  
22 *Eischen*, 158 Cal.App.3d 575, 578-579, 205 Cal.Rptr. 15 (1984) (a cause of action to set aside a  
23 trustee sale should be accompanied by an offer to pay the full amount of the debt because equity will  
24 not order that a useless act be performed); *Karlsen v. American Sav. & Loan Ass’n*, 15 Cal.App.3d  
25 112, 117, 92 Cal.Rptr. 851 (1971)); Opposition to Wells Fargo, 2. Plaintiffs elaborate that they are  
26 not seeking to set aside the foreclosure. Opposition to Loanstar, 4. Rather, they are seeking money  
27 damages. *Id.* Second, Plaintiffs contend that the tender rule does not apply where, as here, it would  
28 be inequitable to require the plaintiff to tender the amount due on the loan to the foreclosing

1 beneficiary. Opposition to Wells Fargo, 2 (citing *Pantoja v. Countrywide Home Loans*, 640  
2 F.Supp.2d 1177, 1184 (N.D. Cal. 2009)). Plaintiffs explain that it would be inequitable to require  
3 them to tender the full amount of the loan to Wells Fargo after the property has been sold to a third  
4 party. *Id.* Thus, Plaintiffs argue that they have a viable wrongful foreclosure cause of action.

5 (4) Negligence: Plaintiffs contend that they have pled a cause of action for negligence  
6 because they alleged that Wells Fargo failed to exercise reasonable care in processing Mrs. Perez's  
7 application for a loan modification. *Id.* at 9 (citing *Garcia v. Ocwen Loan Servicing*, 2010 WL  
8 1881098 (N.D. Cal. May 10, 2010)). Plaintiffs state that this activity is outside of Wells Fargo's  
9 conventional role as a mere lender of money. *Id.*

#### 10 **4. Wells Fargo Reply**

11 (1) Rosenthal Act: Wells Fargo argues that it did not violate the Rosenthal Act by  
12 reviewing Mrs. Perez for a loan modification and postponing the foreclosure sale because it was under  
13 no obligation to take these actions, which were favorable to Plaintiffs. Wells Fargo's Reply in  
14 Support of Motion to Dismiss ("Wells Fargo Reply"), 2-3. In addition, Wells Fargo contends that  
15 these actions are governed by nonjudicial foreclosure statutes and are within the scope of its debt  
16 collection efforts. *Id.* at 3-4 (citing Cal. Civ. Code §§ 2923.5, 2923.6, 2924, 2924.3, 2924.8, 2924b,  
17 2924f, 2924g, 2924h; *Gomes v. Countrywide Home Loans, Inc.*, 192 Cal.App.4th 1149, 1154, 121  
18 Cal.Rptr.3d 819 (2011); *Gardner v. Am. Home Mortgage Serv'g, Inc.*, 691 F.Supp.2d 1192, 1199  
19 (E.D. Cal. 2010)). Finally, Wells Fargo asserts that its alleged misrepresentations are not among the  
20 enumerated misrepresentations made actionable by the Rosenthal Act. *Id.* at 4-5 (citing Cal. Civ.  
21 Code § 1788.13(a)).

22 (2) UCL: Wells Fargo argues that economic injury caused by the challenged business  
23 practice is a requirement for standing under the UCL. *Id.* at 9 (citing *Kwikset Corp. v. Superior*  
24 *Court*, 51 Cal.4th 310, 323, 120 Cal.Rptr.3d 741, 246 P.3d 877 (2011)). Wells Fargo contends that  
25 the only alleged economic injury is the foreclosure sale caused by Plaintiffs' default, not its business  
26 practices. *Id.* For that reason, Wells Fargo asserts that Plaintiffs' UCL claim fails.

27 (3) Wrongful Foreclosure: Wells Fargo states that the three elements of a wrongful  
28 foreclosure cause of action are "(1) the trustee or mortgagee caused an illegal, fraudulent, or willfully

1 oppressive sale of real property pursuant to a power of sale in a mortgage or deed of trust; (2) the  
2 party attacking the sale ... was prejudiced or harmed; and (3) in cases where the trustor or mortgagor  
3 challenges the sale, the trustor or mortgagor tendered the amount of the secured indebtedness or was  
4 excused from tendering.” *Id.* at 6-7 (quoting *Ogilvie v. Select Portfolio Serv’g*, 2012 WL 4891583, at  
5 \*6 (N.D. Cal. Oct. 12, 2012) (quoting *Lona v. Citibank, N.A.*, 202 Cal.App.4th 89, 104, 134  
6 Cal.Rptr.3d 622 (2011)). Wells Fargo asserts that Plaintiffs have failed to allege how they were  
7 prejudiced by the alleged lack of notice for the foreclosure sale, as they have not alleged any actions  
8 they would have taken with proper notice. *Id.* at 7. In addition, Wells Fargo contends that the tender  
9 rule applies “as a precondition to challenging a foreclosure sale, or any cause of action implicitly  
10 integrated to the sale, the borrower must make a valid and viable tender of payment to the secured  
11 debt.” *Id.* at 6 (quoting *Montoya v. Countrywide Bank*, 2009 WL 1813973, at \*11-\*12 (N.D. Cal.  
12 June 25, 2009)) (emphasis omitted).

13 (4) Negligence: Wells Fargo notes that *Garcia*, cited by Plaintiffs, contains a six factor  
14 test to determine whether a lender or servicer owes a borrower a duty of care: “[1] the extent to which  
15 the transaction was intended to benefit the plaintiff, [2] the foreseeability of harm to him, [3] the  
16 degree of certainty that the plaintiff suffered injury, [4] the closeness of connection between the  
17 defendant’s conduct and the injury suffered, [5] the moral blame attached to the defendant’s conduct,  
18 and [6] the policy of preventing future harm.” *Id.* at 7 (quoting *Garcia*, 2010 WL 1881098 at \*3).  
19 Wells Fargo argues that factors two through five are missing because Plaintiffs were not harmed by its  
20 decision to simultaneously review Mrs. Perez for a loan modification, which it had no obligation to  
21 do, while going forward with the foreclosure process. *Id.* at 8.

## 22 5. Loanstar Reply

23 Loanstar asserts that the strict pleading requirements set forth in Federal Rule of Civil  
24 Procedure 9(b) apply to Plaintiffs’ claims against it because are grounded in alleged fraudulent  
25 conduct. Loanstar’s Reply in Support of Motion to Dismiss (“Loanstar Reply”), 3-5. Loanstar  
26 contends that Plaintiffs have not satisfied those requirements with respect to its recorded message. *Id.*  
27 at 5. In addition, Loanstar argues the Plaintiffs have failed to allege damage or prejudice resulting  
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1 directly from the erroneous message and thus cannot make out a cause of action to set aside a trustee  
2 sale. *Id.* at 5-7 (citing *Angell v. Superior Court*, 73 Cal.App.4th 691, 700, 86 Cal.Rptr.2d 657 (1999))

3 **IV. ANALYSIS**

4 **A. Motion to Remand**

5 **1. Legal Background**

6 **a. Motion to Remand and Supplemental Jurisdiction**

7 “Except as otherwise expressly provided by Act of Congress, any civil action brought in a  
8 State court of which the district courts of the United States have original jurisdiction, may be removed  
9 by the defendant or the defendants, to the district court of the United States for the district and  
10 division embracing the place where such an action is pending.” 28 U.S.C. § 1441(a). Original  
11 jurisdiction may be based on diversity or the existence of a federal question, as set forth in 28 U.S.C.  
12 sections 1331 and 1332. “A motion to remand a case on the basis of any defect other than lack of  
13 subject matter jurisdiction must be made within 30 days of the filing of the notice of removal under  
14 section 1446(a). If at any time before final judgment it appears that the district court lacks subject  
15 matter jurisdiction, the case shall be remanded.” 28 U.S.C. § 1447(c).

16 “If a case is improperly removed, the federal court must remand the action because it has no  
17 subject-matter jurisdiction to decide the case.” *ARCO Envtl. Remediation v. Dep’t of Health &*  
18 *Quality*, 213 F.3d 1108, 1113 (9th Cir. 2000). If the case was properly removed on the basis of  
19 federal question jurisdiction the state law claims arising out of a “common nucleus of operative fact”  
20 fall within the federal court’s supplemental jurisdiction. *See* 28 U.S.C. § 1367(a); *United Mine*  
21 *Workers of America v. Gibbs*, 383 U.S. 715, 725, 86 S.Ct. 1130, 16 L.Ed.2d 218 (1966). If the federal  
22 claims that served as the basis for removal are eliminated, the district court has discretion to decline to  
23 exercise its supplemental jurisdiction and to remand the remaining state law claims to state court. 28  
24 U.S.C. § 1367(a); *Harrell v. 20th Century Ins. Co.*, 934 F.2d 203, 205 (9th Cir. 1991); *Albingia*  
25 *Verischerungs A.G. v. Schenker Intern. Inc.*, 244 F.3d 931, 938 (9th Cir. 2003), *amended on other*  
26 *grounds*, 350 F.3d 916 (9th Cir. 2003), *cert denied*, 541 U.S. 1041, 124 S.Ct. 2162, 158 L.Ed.2d 730  
27 (2004) (“section 1447(c) does not mean that if the federal claim drops out, the district court must  
28 remand ... section 1447(c) means that if it is discovered at any time in the litigation that there is no

1 federal jurisdiction, a removed case must be remanded ... rather than dismissed[;] ... [o]nce  
2 supplemental jurisdiction exists, it remains, subject to the discretionary provision for remand”);  
3 *Carlsbad Tech., Inc. v. HIF Bio, Inc.*, 556 U.S. 635, 639, 129 S.Ct. 1862, 173 L.Ed.2d 843 (2009)  
4 (where a district court dismisses every claim over which it had original jurisdiction, it retains pure  
5 discretion in deciding whether to exercise supplemental jurisdiction over the remaining claims).

6 “[T]here is a distinction between the power to hear state law claims and the discretionary  
7 exercise of that power.” *Nishimoto v. Federman-Bachrach & Assocs.*, 903 F.2d 709, 715 (9th Cir.  
8 1990) (citing *Carnegie-Mellon University v. Cohill*, 484 U.S. 343, 349-350, 108 S.Ct. 614, 98 L.Ed.2d  
9 720 (1988)). To decide whether to exercise jurisdiction over pendent state law claims, a district court  
10 should “consider and weigh in each case, and at every stage of litigation, the values of judicial  
11 economy, convenience, fairness, and comity...” *Cohill*, 484 U.S. at 349-350, 108 S.Ct. 614, 98  
12 L.Ed.2d 720); *City of Chicago v. Int’l College of Surgeons*, 522 U.S. 156, 172-173, 118 S.Ct. 523,  
13 139 L.Ed.2d 525 (1997). “[I]n the usual case in which all federal law claims are eliminated before  
14 trial, the balance of the factors to be considered ... will point toward declining to exercise jurisdiction  
15 over the remaining state-law claims.” *Satey v. JPMorgan Chase & Co.*, 521 F.3d 1087, 1091 (9th Cir.  
16 2008) (quoting *Cohill*, 484 U.S. at 351, 108 S.Ct. 614, 98 L.Ed.2d 720).

17 **b. Federal Question Jurisdiction**

18 “The district courts shall have original jurisdiction of all civil actions arising under the  
19 Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331. Federal question jurisdiction  
20 is found only where a federal question appears on the face of a properly pleaded complaint.  
21 *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392, 107 S.Ct. 2425, 96 L.Ed.2d 318 (1987).

22 **c. Diversity Jurisdiction**

23 Federal subject matter jurisdiction based on diversity requires complete diversity of citizenship  
24 and an amount in controversy in excess of \$75,000. 28 U.S.C. § 1332(a). “[O]ne exception to the  
25 requirement of complete diversity is where a non-diverse defendant has been ‘fraudulently joined.’”  
26 *Hunter v. Philip Morris USA*, 582 F.3d 1039, 1043 (9th Cir. 2009) (quoting *Morris v. Princess*  
27 *Cruises, Inc.*, 236 F.3d 1061, 1067 (9th Cir. 2001)). Fraudulent joinder is a term of art. *Morris*, 236  
28 F.3d at 1067 (citing *McCabe v. General Foods Corp.*, 811 F.2d 1336, 1339 (9th Cir. 1987)). “Joinder

1 of a non-diverse defendant is deemed fraudulent, and the defendant’s presence in the lawsuit is  
2 ignored for the purposes of determining diversity, “[i]f the plaintiff fails to state a cause of action  
3 against a resident defendant, and the failure is obvious according to the settled rules of the state.” *Id.*  
4 (quoting *McCabe*, 811 F.2d at 1339); *Hunter*, 582 F.3d at 1043. In construing this standard, district  
5 courts have held that remand is improper where a complaint can be amended to state a cause of action  
6 against the purportedly fraudulently joined defendant. *Padilla v. AT & T Corp.*, 697 F.Supp.2d 1156,  
7 1159 (C.D. Cal. 2009); *Morrow v. Wells Fargo Bank*, 2012 WL 5471133, at \*6 (N.D. Cal. Nov. 9,  
8 2012). “The defendant ‘is entitled to present facts showing the joinder is fraudulent.’” *Morris*, 236  
9 F.3d at 1067 (quoting *McCabe*, 811 F.2d at 1339).

10 In assessing diversity, “[a] federal court must disregard nominal or formal parties and rest  
11 jurisdiction only upon the citizenship of real parties to the controversy.” *Kuntz v. Lamar Corp.*, 385  
12 F.3d 1177, 1183 (9th Cir. 2004). A nominal party is one “who has no interest in the action” and is  
13 merely joined to “perform a ministerial act.” *Prudential Real Estate Affiliates, Inc. v. PPR Realty,*  
14 *Inc.*, 204 F.3d 867, 873 (9th Cir. 2000). “The paradigmatic nominal defendant is a trustee, agent, or  
15 depository who is joined merely as a means of facilitating collection.” *Colello*, 139 F.3d at 676  
16 (internal quotations omitted); *see also Hafiz v. Greenpoint Mortg. Funding, Inc.*, 652 F.Supp.2d  
17 1050, 1052 (N.D. Cal. 2009) (trustee defendant named in the complaint solely in its capacity as a  
18 trustee and not because of any wrongdoing was a nominal defendant, where trustee filed declaration  
19 of nonmonetary status pursuant to California Civil Code section 2924l). However, courts have found  
20 that trustees are more than nominal defendants where the complaint includes substantive allegations  
21 and asserts claims for money damages against the trustee. *See Silva v. Wells Fargo Bank NA*, 2011  
22 WL 2437514, at \*5 (C.D. Cal. June 6, 2011) (trustee defendant not a nominal defendant where the  
23 plaintiffs assert in their complaint claims against all defendants for money damages, including  
24 damages to their credit rating and home value, and emotional and physical distress); *Couture v. Wells*  
25 *Fargo Bank, N.A.*, 2011 WL 3489955, at \*3 (S.D. Cal. Aug 9, 2011) (trustee defendant not a nominal  
26 defendant where the plaintiff’s complaint contains substantive allegations and claims for money  
27 damages against trustee defendant).

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**d. Relevant Substantive Law**

**i. Trustee Liability**

The court in *Kachlon v. Markowitz* explained that California Civil Code section 2924(d) makes the trustee’s fulfillment of its statutory duties privileged communications, subject to a qualified common interest privilege, under section 47. 168 Cal.App.4th at 339-340, 85 Cal.Rptr.3d 532. Section 47, in turn, creates a privilege for “a communication, without malice, to a person interested therein.” Cal. Civ. Code § 47(c)(1). For this purpose, malice is defined as actual malice, meaning “that the publication was motivated by hatred or ill will towards the plaintiff *or* by a showing that the defendant lacked reasonable grounds for belief in the truth of the publication and therefore acted in reckless disregard of the plaintiff’s rights.” *Kachlon*, 168 Cal.App.4th at 336, 85 Cal.Rptr.3d 532.

Section 2924(b) also creates the following privilege for trustees:

In performing acts required by this article, the trustee shall incur no liability for any good faith error resulting from reliance on information provided in good faith by the beneficiary regarding the nature and the amount of the default under the secured obligation, deed of trust, or mortgage.

Cal. Civ. Code Section 2924(b).

**ii. UCL**

The UCL prohibits “unfair competition,” which is defined as any “unlawful, unfair or fraudulent business act or practice.” Cal. Bus. & Prof. Code § 17200. A claim may be brought under the UCL “by a person who has suffered injury in fact and has lost money or property as a result of unfair competition.” Cal. Bus. & Prof. Code § 17204. Therefore, to establish standing under the UCL a plaintiff must “(1) establish a loss or deprivation of money sufficient to qualify as injury in fact, i.e., *economic injury*, and (2) show that the economic injury was the result of, i.e., *caused by*, the unfair business practice ... that is the gravamen of the claim.” *Lawther v. OneWest Bank, FSB*, 2012 WL 298110, at \*23 (N.D. Cal. Feb. 1, 2012) (quoting *Kwikset Corp.*, 51 Cal.4th 310, 337, 120 Cal.Rptr.741, 246 P.3d 877).

To establish a violation of Section 17200, a plaintiff may establish a violation under any one of three prongs. To state a cause of action based on an “unlawful” business act or practice under the UCL, a plaintiff must allege facts sufficient to show a violation of some underlying law. *People v.*

1 *McKale*, 25 Cal.3d 626, 635, 159 Cal.Rptr. 811, 602 P.2d 731 (1979). A “fraudulent” business act or  
2 practice is one in which members of the public are likely to be deceived. *Weinstat v. Dentsply Intern.,*  
3 *Inc.*, 180 Cal.App. 4th 1213, 1223 n.8, 103 Cal.Rptr.3d 614 (2010)(citations omitted). “‘Fraudulent,’  
4 as used in the statute, does not refer to the common law tort of fraud but only requires a showing that  
5 members of the public ‘are likely to be deceived.’” *Olsen v. Breeze*, 48 Cal.App.4th 608, 618, 55  
6 Cal.Rptr.2d 818 (1996). UCL claims premised on fraudulent conduct trigger the heightened pleading  
7 standard of Rule 9(b) of the Federal Rules of Civil Procedure. *Kearns v. Ford Motor Co.*, 567 F.3d  
8 1120, 1125 (9th Cir.2009).

9 Finally, while there is disagreement among California courts regarding the definition of  
10 “unfair” business practices, three tests have been applied, as the court in *Phipps v. Wells Fargo*  
11 explains:

12 In consumer cases, such as this, the California Supreme Court has not established a  
13 definitive test to determine whether a business practice is unfair. *Drum v. San Fernando*  
14 *Valley Bar Ass’n*, 182 Cal.App.4th 247, 256, 106 Cal.Rptr.3d 46 (2010). A split of  
15 authority has developed among the California Courts of Appeal, which have applied three  
16 tests for unfairness in consumer cases. *Drum*, 182 Cal.App.4th at 256, 106 Cal.Rptr.3d  
17 46.

18 The test applied in one line of cases requires “that the public policy which is a predicate  
19 to a consumer unfair competition action under the ‘unfair’ prong of the UCL must be  
20 tethered to specific constitutional, statutory, or regulatory provisions.” *Drum*, 182  
21 Cal.App.4th at 256, 106 Cal.Rptr.3d 46 (citing *Bardin v. Daimlerchrysler Corp.*, 136  
22 Cal.App.4th 1255, 1260–1261, 39 Cal.Rptr.3d 634 (2006); *Davis v. Ford Motor Credit*  
23 *Co.*, 179 Cal.App.4th at 581, 595–596, 101 Cal.Rptr.3d 697 (2009); *Gregory v.*  
24 *Albertson’s Inc.*, 104 Cal.App.4th 845, 854, 128 Cal.Rptr.2d 389 (2002).

25 . . .

26 A second line of cases applies a test to determine whether the alleged business practice “is  
27 immoral, unethical, oppressive, unscrupulous or substantially injurious to consumers and  
28 requires the court to weigh the utility of the defendant’s conduct against the gravity of the  
harm to the alleged victim.” *Drum*, 182 Cal.App.4th at 257, 106 Cal.Rptr.3d 46 (citing  
*Bardin*, 136 Cal.App.4th at 1260, 39 Cal.Rptr.3d 634; *Davis*, 179 Cal.App.4th at 594–  
595, 101 Cal.Rptr.3d 697)).

. . .

The test applied in a third line of cases draws on the definition of “unfair” in section 5 of  
the Federal Trade Commission Act (15 U.S.C. § 45, subd. (n)), and requires that “(1) the

1 consumer injury must be substantial; (2) the injury must not be outweighed by any  
2 countervailing benefits to consumers or competition; and (3) it must be an injury that  
3 consumers themselves could not reasonably have avoided.” *Drum*, 182 Cal.App.4th at  
4 257, 106 Cal.Rptr.3d 46 (citing *Davis*, 179 Cal.App.4th 597–598, 101 Cal.Rptr.3d 697;  
*Camacho v. Automobile Club of Southern California*, 142 Cal.App.4th 1394, 1403, 48  
Cal.Rptr.3d 770 (2006)).

5 2011 WL 302803, at \*16 (E.D.Cal., Jan. 27, 2011).

6 The relief provided under the UCL is equitable in nature. *Aryeh v. Canon Business Solutions,*  
7 *Inc.*, \_\_ Cal.4th \_\_, 2013 WL 263509, at \*6 n.5 (2013). Damages cannot be recovered. *Korea Supply*  
8 *Co. v. Lockheed Martin Corp.*, 29 Cal.4th 1134, 1144, 131 Cal.Rptr.2d 29, 63 P.3d 937 (2003).

## 9 2. Application of Law to Facts

10 This Court had subject matter jurisdiction over the case at the time of removal because  
11 Plaintiffs’ initial complaint asserted a cause of action under the TILA. *See* 15 U.S.C. § 1601. The  
12 remaining state law claims fell within this Court’s supplemental jurisdiction because each claim arose  
13 out of the facts surrounding the inception of Plaintiffs’ mortgage loan and their subsequent default.  
14 This Court dismissed Plaintiffs’ TILA claim, along with all of Plaintiffs’ other claims, with leave to  
15 amend. Plaintiffs did not raise the TILA claim, or any other federal claim, in either of their two  
16 amended complaints. Therefore, this action no longer falls within the Court’s federal question  
17 jurisdiction. The parties dispute whether supplemental jurisdiction is the only remaining basis for  
18 jurisdiction and, if it is, whether the Court should decline to exercise its supplemental jurisdiction. As  
19 explained below, complete diversity is lacking. Thus, supplemental jurisdiction is the only remaining  
20 basis for jurisdiction. The Court declines to exercise its supplemental jurisdiction over Plaintiffs’  
21 remaining state law claims. Plaintiffs’ Motion for Remand is granted.

### 22 a. Lack of Diversity Jurisdiction

23 Complete diversity of the parties is lacking. Plaintiffs are citizens of California. SAC, ¶ 1.  
24 Loanstar is a citizen of California. *See* Supplemental Declaration of Glenn H. Wechsler, ¶ 4.<sup>5</sup> The  
25 Court must consider Loanstar’s citizenship because Loanstar is not a nominal party and Loanstar was  
26 not fraudulently joined.

27 \_\_\_\_\_  
28 <sup>5</sup> LLC’s are “citizen[s] of every state in which [their] owners/members are citizens.” *Johnson v. Columbia Props.*  
*Anchorage, LP*, 437 F.3d 894, 899 (9th Cir. 2006). Loanstar’s sole member is First American Title Company, a California  
corporation.

1           Loanstar is not a nominal party in this action. In their SAC, Plaintiffs make two substantive  
2 claims – violation of the UCL and wrongful foreclosure – against Loanstar. SAC, ¶¶ 33-44. Plaintiffs  
3 seek money damages for lost equity in their property, lost personal property, and severe emotional  
4 distress. *Id.* Both claims are premised on Plaintiffs’ allegation that, on June 26, 2010, Loanstar’s  
5 status line contained a recorded message stating that the June 28, 2010 sale had been canceled but the  
6 sale went forward. *Id.* at ¶¶ 20-21, 37, 43. It is clear that Loanstar was not joined purely to perform a  
7 ministerial act. Rather, Plaintiffs seek damages from Loanstar based on its conduct, which they allege  
8 has caused them to lose equity in their home, suffer emotional distress, and lose personal property.

9           Loanstar was not fraudulently joined. Plaintiffs did not “obvious[ly]” fail to state a claim  
10 against Loanstar. First, Loanstar is not obviously shielded from liability by the privileges set forth in  
11 California Civil Code sections 2924(b) and 2924(d). Assuming the common interest privilege  
12 incorporated by section 2924(d) applies, Plaintiffs have pleaded facts – that on June 26, 2010  
13 Loanstar’s automated message “falsely” reported that the June 28, 2010 sale had been canceled – that  
14 may demonstrate malice. That is, these facts tend to show that Loanstar lacked reasonable grounds to  
15 believe that the sale had been canceled. To the extent that the SAC arguably would be subject to  
16 dismissal on the basis of these privileges, Wells Fargo has not shown that Plaintiffs would be unable  
17 to re-allege their allegations to survive dismissal. *See Morrow*, 2012 WL at 5471133 \*6. Moreover,  
18 to the extent the claims in the SAC arguably sound in fraud and fail to meet the heightened pleading  
19 standard in Rule 9(b), Wells Fargo has not shown Plaintiffs would be unable to file an amended  
20 pleading to do so. *See id.*

21           Second, Plaintiffs’ cause of action against Loanstar for violation of the UCL is not obviously  
22 deficient. Plaintiffs alleged that Loanstar had an outgoing recorded message on its status line that  
23 notified Plaintiffs, on June 26, 2010, that the June 28, 2010 sale of the Property had been canceled.  
24 Plaintiffs also alleged that Wells Fargo acquired the property for far less than its market value. Wells  
25 Fargo paid \$617,053.01 to obtain the property at the sale. At that time, Wells Fargo claimed that  
26 Plaintiffs owed \$618,243.01 on the mortgage loan. Plaintiffs allege that the fair market value of their  
27 home at that time was \$740,000.

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1 action based on different theories than those raised in the previous complaints. Defendants have each  
2 filed motions to dismiss the SAC, but the Court has not yet ruled on either motion. The trial date is  
3 not imminent and, given the novelty of the SAC, this Court has not performed a substantial amount of  
4 legal analysis that would need to be repeated by the state court. There would be no significant loss of  
5 judicial economy if this action were remanded. In addition, the SAC relies entirely on California law,  
6 so considerations of comity weigh in favor of granting remand. Moreover, Wells Fargo has not  
7 argued that the shifting the forum to San Mateo County Superior Court, located 26.5 miles from this  
8 courthouse, would cause them any inconvenience.

9 Wells Fargo argues that allowing remand, as opposed to deciding the motions to dismiss, will  
10 prolong the life of the case because they will be forced to demur in state court. However, this  
11 straightforward calculation seems to assume that the motions will be granted. Moreover, the state  
12 forum will provide just as fair a proceeding as the federal one. Thus, the fairness factor does not  
13 weigh strongly against remand.

14 Balancing the factors, the Court concludes that the interests of judicial economy, comity,  
15 fairness, and convenience will be best served by remanding this case to state court. Plaintiffs Motion  
16 to Remand is granted.

17 **B. Motions to Dismiss**

18 Because the Motion to Remand is granted, the Court does not reach the Motions to Dismiss.

19 **V. CONCLUSION**

20 For the foregoing reasons, Plaintiffs' Motion to Remand is granted and Defendants' Motions  
21 to Dismiss are denied without prejudice.

22 IT IS SO ORDERED.

23 Dated: March 8, 2013

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JOSEPH C. SPERO  
United States Magistrate Judge