

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

) Order Number [REDACTED]
)
) STATEMENT OF CHARGES AND NOTICE
) OF INTENT TO ENTER AN ORDER TO
) CEASE AND DESIST AND TO IMPOSE A
) FINE

[REDACTED]

Respondents

THE STATE OF WASHINGTON TO:

[REDACTED]

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, [REDACTED] [REDACTED], have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. [REDACTED] is a Nevada corporation, with its principal place of business located in Bellevue, Washington. [REDACTED] held itself out as being in the business of buying and selling real estate for a profit. During 2007,

1 [REDACTED] owned at least two rental houses that were located in
2 Washington.

3 2. [REDACTED] is a Washington limited liability company,
4 with its principal place of business located in Bellevue, Washington. [REDACTED]
5 [REDACTED] is the managing member of [REDACTED]. During 2007, [REDACTED]
6 owned at least one rental house that was located in Washington.

7 3. [REDACTED] is the President of [REDACTED]
8 [REDACTED] [REDACTED] is also in charge of a Seattle-area real estate club.

9
10 Offering of Promissory Note and Deed of Trust Investments

11 4. Through her participation in the real estate club, [REDACTED] personally solicited other
12 club participants and their relatives to purchase promissory note and deed of trust investments
13 that were issued by [REDACTED] and by [REDACTED]. During 2007,
14 [REDACTED] offered and sold to at least three investors at least three promissory note and deed of
15 trust investments that were issued by [REDACTED] and at least one
16 promissory note and deed of trust investment that was issued by [REDACTED]. When
17 offering and selling the promissory note and deed of trust investments, Respondents each
18 represented to the investors that the investments would pay higher than market interest rates,
19 with annual interest ranging from 7.5% to 12%. The notes each required interest-only monthly
20 payments. The notes were due within seven to twelve months from the date of issuance. The
21 investors did not have any control over the use of their funds and they did not participate in the
22 management of the businesses. The investors relied upon Respondents to generate a return on
23 the investments. Respondents each represented that the investors' funds would be used to
24 refinance real properties that were owned by [REDACTED] or by [REDACTED]

1 [REDACTED]. Respondents each represented that the investments would be fully secured by deeds
2 of trust against the real property that was being refinanced. Each of the investments is now in
3 default and none of the investments have been fully repaid.

4
5 Misrepresentations and Omissions

6 5. When offering and selling the promissory note and deed of trust investments,
7 Respondents each failed to disclose the risks of the investments. Respondents each failed to
8 disclose the intended source of repayment for the investments. Respondents each failed to
9 disclose the payment history for any promissory notes that were issued by [REDACTED]
10 [REDACTED] or by [REDACTED]. Respondents each failed to give the investors any
11 financial statements for the issuer of the investments. Respondents each failed to give the
12 investors any property appraisal information for the real property that was represented to
13 secure the investments.
14

15 6. When offering and selling a \$75,000 promissory note and deed of trust investment
16 from [REDACTED] during February 2007 and a \$25,000 promissory note
17 and deed of trust investment from [REDACTED] during May 2007,
18 [REDACTED] and [REDACTED] each represented that investors were
19 making a “no risk loan” because there was so much equity in the real property that was
20 represented to secure the investment. [REDACTED] and [REDACTED] each
21 failed to disclose that the property was located in a flood plain.
22
23

24 7. When offering and selling a \$90,000 promissory note and deed of trust investment
25 from [REDACTED] during August 2007, [REDACTED] and [REDACTED] each failed to
disclose to the investor that the real property that was represented to secure the investment was

1 in foreclosure because [REDACTED] had defaulted on loans to two prior investors. [REDACTED]
2 [REDACTED] and [REDACTED] each represented that the real property that would secure the
3 investment had a "retail" value of approximately \$90,000, but they each failed to explain why
4 the purported retail value was so much greater than the 2007 tax assessed value, which was
5 only \$53,225. Respondents did not provide any reasonable basis for the reported retail value.
6

7 8. When offering and selling a \$110,000 promissory note and deed of trust investment
8 from [REDACTED] during November 2007, [REDACTED]
9 [REDACTED] and [REDACTED] each failed to disclose to the investor that the real property that
10 was represented to secure the investment was in foreclosure because [REDACTED]
11 [REDACTED] had defaulted on a loan to a prior investor. [REDACTED]
12 [REDACTED] and [REDACTED] each represented to the investor that the real property that would secure the
13 investment had a "retail" value of approximately \$150,000, but they each failed to explain why
14 the purported retail value was so much greater than the 2007 tax assessed value, which was
15 only \$60,805. Respondents did not provide any reasonable basis for the reported retail value.
16
17

18 Failure to Answer Interrogatories

19 9. During 2009, [REDACTED], through her attorney, agreed to respond to written
20 interrogatories from the Securities Division. The interrogatories related to the offer and sale of
21 promissory note and deed of trust investments. The interrogatories were sent on June 19, 2009.
22 To date, [REDACTED] has failed to answer the interrogatories.
23

24 Securities Registration Status

25 10. [REDACTED] and [REDACTED] are not currently
registered to sell their securities in the state of Washington and they have not previously been
so registered, nor have they filed a claim of exemption from registration.

1 11. [REDACTED] is not currently registered as a securities broker-dealer or a
2 securities salesperson in the state of Washington and she has not previously been so registered.

3 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:
4

5 **CONCLUSIONS OF LAW**

6 I.

7 The offer or sale of the promissory note and deed of trust investments described above
8 constitutes the offer or sale of a security, as defined in RCW 21.20.005(10) and (12), whether
9 in the form of a promissory note, deed of trust, or evidence of indebtedness.
10

11 II.

12 The offer or sale of said securities is in violation of RCW 21.20.140 because no
13 registration for such offer or sale is on file with the Securities Administrator.
14

15 III.

16 [REDACTED] has violated RCW 21.20.040 by offering or selling said securities
17 while not registered as a securities broker-dealer or a securities salesperson in the state of
18 Washington.
19

20 IV.

21 Respondents, [REDACTED]; [REDACTED]; and [REDACTED]
22 [REDACTED], have each violated RCW 21.20.010 because, in connection with the offer and
23 sale of said securities, they each made untrue statements of a material fact or they each omitted
24 to state a material fact necessary in order to make the statements made, in the light of the
25 circumstances under which they were made, not misleading.

NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST

1 Pursuant to RCW 21.20.390(1), and based on the Tentative Findings of Fact and
2 Conclusions of Law, the Securities Administrator intends to order, pursuant to RCW
3 21.20.390(1), that Respondents, [REDACTED]; [REDACTED];
4 and [REDACTED], and their agents and employees, each shall cease and desist from any
5 violation of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.
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7 **NOTICE OF INTENT TO IMPOSE A FINE**

8 Pursuant to RCW 21.20.395, and based on the Tentative Findings of Fact and
9 Conclusions of Law, the Securities Administrator intends to order that [REDACTED]
10 shall be liable for and shall pay a fine of \$10,000.
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12 **AUTHORITY AND PROCEDURE**

13 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
14 and is subject to the provisions of chapter 34.05 RCW. The respondents, [REDACTED]
15 [REDACTED]; [REDACTED]; and [REDACTED], may each make a written
16 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
17 OPPORTUNITY FOR HEARING accompanying this order.
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19 If a respondent fails to make a timely hearing request, the Securities Administrator
20 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to
21 enter a permanent order to cease and desist as to that respondent and to impose any fines
22 sought against the respondent.
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24 Dated and Entered this 1st day of December, 2009

25 [REDACTED]

[REDACTED]

Securities Administrator

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Approved by:

[Redacted]

[Redacted]

Chief of Enforcement

Presented by:

[Redacted]

[Redacted]

Enforcement Attorney

Reviewed by:

[Redacted]

Financial Legal Examiner Supervisor

[Redacted]