

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) S-03-166-03-TO01
Whether there has been a violation of the)
Securities Act of Washington by:) STOP ORDER SUSPENDING THE PERMIT
) FOR THE SALE OF MORTGAGE PAPER
CLS FINANCIAL SERVICES, LLC and its) SECURITIES BY CLS FINANCIAL
affiliates and GERALD CLARK VANHOOK) SERVICES, LLC; SUMMARY ORDER TO
) CEASE AND DESIST; AND ORDER
Respondents) CONDITIONING SECURITIES
) REGISTRATION EXEMPTIONS
)
) Case #S-03-166
)

THE STATE OF WASHINGTON TO: CLS FINANCIAL SERVICES, LLC
GERALD CLARK VANHOOK

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, CLS Financial Services, LLC, has violated the Securities Act of Washington and that its violations justify the entry of an order of the Securities Administrator under RCW 21.20.280 to suspend the effectiveness of its current permit for the offer and sale of mortgage paper securities (file number 70011068). The Securities Administrator also has reason to believe that Respondents, CLS Financial Services, LLC and its affiliates and Gerald Clark Vanhook, 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, pursuant to RCW 21.20.325, justify the conditioning of the exemptions provided by RCW 21.20.320(1), (5), (9), (11) and (17) as to CLS Financial Services, LLC and any of its affiliates. The Securities Administrator finds that delay in

1 ordering the suspension of the CLS Financial Services, LLC permit for the sale of mortgage
2 paper securities; the conditioning of exemptions available to CLS Financial Services, LLC and
3 any of its affiliates pursuant to RCW 21.20.325; and the order against all Respondents to cease
4 and desist from violations of the Securities Act would be hazardous to investors and to the public
5 and that this order should be entered immediately. The Securities Administrator finds as
6 follows:

7 **TENTATIVE FINDINGS OF FACT**

8 **I. RESPONDENTS**

9
10 1. CLS Financial Services, LLC (“CLS”) is a Washington limited liability company with
11 its principal place of business at 4720 200th Street SW in Lynnwood, Washington. CLS is
12 currently registered pursuant to RCW 21.20.210 and WAC 460-33A to sell mortgage paper
13 securities, as that term is defined in WAC 460-33A-015(4). The securities registration file
14 number is 70011068.

15 2. Gerald Clark Vanhook is the managing member of CLS Financial Services, LLC and
16 is a registered securities salesperson.

17 3. Granite Northwest L.L.C. (“Granite Northwest”) is a Washington limited liability
18 company that has its principal place of business at 4720 200th Street SW in Lynnwood,
19 Washington. Granite Northwest is an affiliate of CLS. CLS Financial Services, LLC is the
20 managing member of Granite Northwest L.L.C.
21

22 **II. GRANITE NORTHWEST L.L.C. MORTGAGE PAPER SECURITIES OFFERING**

23 During 2003, pursuant to WAC 460-33A, Respondents have each offered and sold to at
24 least ten investors more than \$1,000,000 worth of participation interests in a \$5,487,749.10 note
25 secured by assignments of a deed of trust. The \$5,487,749.10 note is dated March 17, 2003 and

1 is payable from Granite Northwest L.L.C., an affiliate of CLS, to CLS Financial Services, LLC.
2 The note is secured by a deed of trust against four parcels of land located in Arlington,
3 Washington. The five-year, 11% note calls for minimum monthly interest payments of
4 \$50,304.37.

5 **III. DEED OF TRUST STATUS**

6 When offering and selling the Granite Northwest L.L.C. participation interests,
7 Respondents have each misrepresented to investors that investors would have a first lien deed of
8 trust against the land securing their investment. Respondents have each failed to disclose the
9 actual position of the deed of trust securing their investment. It appears that the land is subject to
10 at least two prior deeds of trust totaling \$525,000. In addition, the land may also be subject to
11 prior deeds of trust in favor of affiliates of CLS.
12

13 **IV. CONDITIONAL USE PERMIT STATUS**

14 When offering and selling the Granite Northwest L.L.C. (“Granite Northwest”)
15 participation interests, Respondents have each represented that investors are secured by a 125-
16 acre granite quarry. Respondents have each failed to disclose that Granite Northwest does not
17 have a conditional use permit to operate a granite quarry. Respondents have each failed to
18 disclose that Granite Northwest’s application for a permit is opposed by the City of Granite Falls
19 and a neighborhood group. Respondents have each failed to disclose that there are significant
20 environmental concerns about traffic, noise, water quality and other matters that must be
21 addressed before a conditional use permit could be issued and that there is no guarantee that
22 these concerns could be satisfactorily addressed.
23
24
25

1 **V. APPRAISAL**

2 When offering and selling the Granite Northwest L.L.C. participation interests,
3 Respondents have each represented to investors that the land securing the \$5,487,749.10 note
4 had an appraised value of \$33 million. Respondents have each further represented to investors
5 that the loan would have a loan to value ratio as low as 16.63%. However, the \$33 million value
6 was based upon the “going concern” value of an operating business, with a number of
7 assumptions about how the business would be conducted, assuming it ever was able to be
8 conducted. Respondents have each failed to fully disclose the assumptions underlying such
9 valuation.
10

11 Respondents have each failed to provide an appraisal for the “as is” value of the land
12 securing the participation interest investments, although Respondents did include printouts from
13 the Snohomish County Assessor’s Office which show that the combined “market value” of the
14 four parcels is less than \$168,000.

15 **VI. LOAN STATUS**

16 When offering and selling the Granite Northwest L.L.C. participation interests,
17 Respondents have each represented that CLS made a \$5 million loan to Granite Northwest
18 L.L.C. However, Respondents have each failed to disclose that CLS did not fully fund its loan to
19 Granite Northwest. Respondents have each failed to disclose the amount of the loan proceeds
20 received by Granite Northwest L.L.C. and how the proceeds have been and are being used.
21

22 **VII. ESCROW ACCOUNT**

23 When offering and selling the Granite Northwest L.L.C. participation interests,
24 Respondents did not require participation interest investors to make their investment checks
25 payable to an independent escrow account. Instead, they directed investors to make their checks

1 payable to CLS. Respondents each failed to deposit investor funds in an independent escrow
2 account within 48 hours of receipt as required by WAC 460-33A-055.

3 **VIII. PRE-SIGNED REQUEST FOR FULL RECONVEYANCE**

4 When selling the Granite Northwest L.L.C. participation interests, CLS Financial
5 Services, LLC has recommended that investors give CLS a pre-signed request for a full
6 reconveyance of the deed of trust securing their investment. CLS has represented that the
7 reconveyance would be forwarded to the offices of an “independent” CPA until CLS provides
8 proof that the investment “has been satisfied.” The CLS registration statement is incomplete in a
9 material respect for failing to specifically disclose the name, terms and relationship of the CPA
10 providing this service to CLS.
11

12 **IX. THREAT TO THE INVESTING PUBLIC**

13 The Securities Administrator finds that the continued offering of Granite Northwest
14 L.L.C. participation interests in the manner described above presents a threat to the investing
15 public.

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

17 **CONCLUSIONS OF LAW**

18 **I.**

19 The offer or sale of Granite Northwest L.L.C. participation interests described above
20 constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12), whether in
21 the form of notes, evidences of indebtedness or investment contracts.
22

23 **II.**

24 As set forth above, the CLS Financial Services, LLC registration statement comprising
25 the specific offering circular and other registration materials are in violation of RCW

1 21.20.280(1) because they are incomplete in material respects and contain statements that are
2 false and misleading with respect to material facts.

3 III.

4 As set forth above, Respondents have each violated RCW 21.20.010 by making untrue
5 statements of material fact or omitting to state material facts necessary in order to make the
6 statements made not misleading.
7

8 IV.

9 As set forth in Tentative Findings of Fact V, CLS Financial Services, LLC has violated
10 RCW 21.20.280(2) and WAC 460-33A-105 by failing to give investors an “as is” real estate
11 appraisal for property securing a mortgage paper security.

12 V.

13 As set forth in Tentative Findings of Fact VII, CLS Financial Services, LLC has violated
14 RCW 21.20.280(2) and WAC 460-33A-055 by accepting checks that are not made payable to an
15 independent escrow account and by depositing investor checks to a CLS operating account,
16 instead of depositing them with an independent escrow account.

17 VI.

18 The Securities Administrator finds and concludes that an emergency exists, that the
19 continued violations of RCW 21.20.010 and RCW 21.20.280 and the continued availability of
20 exemptions to CLS and its affiliates without conditions under RCW 21.20.320(1), (5), (9), (11)
21 and (17) constitute a threat to the investing public, and that a summary order suspending
22 securities registration, revoking exemptions and ordering Respondents to cease and desist from
23 securities violations is in the public interest and necessary for the protection of the investing
24 public.
25

1 **SUMMARY ORDER**

2 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY
3 ORDERED that the mortgage paper securities permit (file #70011068) for CLS Financial
4 Services, LLC is suspended.

5 It is further SUMMARILY ORDERED that CLS Financial Services, LLC shall
6 immediately give notice of the suspension of its mortgage paper securities permit to all of its
7 affiliates, employees and registered securities salespersons.

8 It is further SUMMARILY ORDERED that the availability of exemptions pursuant to
9 RCW 21.20.320(1), (5), (9), (11) and (17) for CLS Financial Services, LLC and its affiliates is
10 hereby conditioned and will require a filing of the offering circular and appropriate notice of any
11 claim of exemption with the Securities Division at least 30 days prior to the offer or sale of any
12 such securities.

13 It is further SUMMARILY ORDERED that CLS Financial Services, LLC and Gerald
14 Clark Vanhook shall each give immediate notice of the conditioning of exemptions from
15 registration pursuant to RCW 21.20.320(1), (5), (9), (11) and (17) to all affiliates of CLS
16 Financial Services, LLC.

17 It is further SUMMARILY ORDERED that CLS Financial Services, LLC and Gerald
18 Clark Vanhook and their affiliates, agents and employees shall each cease and desist from
19 offering or selling securities in any manner in violation of RCW 21.20.010, the anti-fraud section
20 of the Securities Act of Washington.

21 **AUTHORITY AND PROCEDURE**

22 This Order is entered pursuant to the provisions of RCW 21.20.280, RCW 21.20.325 and
23 RCW 21.20.390 and is subject to the provisions of Chapter 34.05 RCW. The respondents, CLS

1 Financial Services, LLC and its affiliates and Gerald Clark Vanhook, may each make a written
2 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
3 OPPORTUNITY FOR HEARING accompanying this order.

4 If CLS Financial Services, LLC fails to make a timely hearing request, the Securities
5 Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as
6 final and enter against CLS a Stop Order Revoking Effectiveness of Its Permit for the Sale of
7 Mortgage Paper Securities, an Order Conditioning Securities Registration Exemptions, and a
8 Final Order to Cease and Desist.

9 If Gerald Clark Vanhook fails to make a timely hearing request, the Securities
10 Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as
11 final and enter against Vanhook an Order Conditioning Securities Registration Exemptions and a
12 Final Order to Cease and Desist.

13
14 **CONTINUING INVESTIGATION**

15 The Securities Division is continuing to investigate whether there have been additional
16 violations of the Securities Act of Washington by CLS Financial Services, LLC, Gerald Clark
17 Vanhook and any of their affiliates, employees or agents.

18 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

19
20 Dated this 20 day of October, 2003

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23 Deborah R. Bortner
24 Deborah R. Bortner
25 Securities Administrator

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Approved by:

Michael E. Stevenson

Michael E. Stevenson
Chief of Enforcement

Presented by:

Janet So

Janet So
Financial Legal Examiner