

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:

STEPHEN K. BROMBACH and
INTEGRITY GROUP INSURANCE &
FINANCIAL SERVICES,

Respondents.

Order Number S-07-011-07-TO01

SUMMARY ORDER TO CEASE AND DESIST
AND NOTICE OF INTENT TO ENTER AN
ORDER TO BAR REGISTRATIONS, IMPOSE
FINES, AND CHARGE COSTS

THE STATE OF WASHINGTON TO:

Stephen K. Brombach
Integrity Group Insurance & Financial Services

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondents, Stephen K. Brombach and Integrity Group Insurance & Financial Services, have each violated the Securities Act of Washington and that their violations justify the entry of an order to of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations, denial of Stephen K. Brombach's future registration pursuant to RCW 21.20.110 (1), and imposing fines and costs pursuant to 21.20.395. The Securities Administrator finds that delay in ordering Respondents to cease and desist from such violations would be hazardous to investors and to the public, and that a Summary Order to Cease and Desist should be entered immediately.

The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Stephen Kent Brombach ("Brombach"), CRD# 2004305, a Washington resident, was first registered in the securities industry in 1989. From January 1999 to September 2006, Brombach was employed by Hornor, Townsend & Kent and registered in Washington as a securities salesperson limited

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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
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1 to selling mutual funds and variable annuities. He was not registered to sell Real Estate Investment
2 Trusts. Brombach resides in Mill Creek, Washington.

3 2. Integrity Group Insurance & Financial Services (“Integrity Group”) is a sole proprietorship first
4 registered by Brombach with the Washington State Department of Revenue on January 1, 2004. Until
5 recently Brombach and Integrity conducted business from an office located in Marysville, Washington.

6 Background

7 3. Hornor, Townsend & Kent, Inc. (“HTK”), CRD #4031, is a registered broker-dealer and federally-
8 registered investment adviser based in Pennsylvania. HTK is a broker-dealer owned by Penn Mutual Life
9 Insurance Company. On September 7, 2006, HTK terminated Brombach for selling securities not
10 approved by HTK and creating his own customer account statements. Respondent Brombach is not
11 currently registered with the Washington State Securities Division (“the Division”) in any capacity.

12 4. Penn Mutual Life Insurance Company (“Penn Mutual”), the parent of HTK, provides life insurance
13 and annuity products through a network of producers. Penn Mutual appointed Brombach as an insurance
14 producer on October 22, 1998. On September 7, 2006, Penn Mutual terminated Brombach for
15 misrepresentation.

16 5. Brombach was licensed to sell insurance with the Washington State Office of the Insurance
17 Commissioner (OIC # 109771) until recently. On April 22, 2007, the Office of the Insurance
18 Commissioner issued order number D 07-125 revoking Brombach’s insurance license because he had
19 shown himself to be “incompetent, and untrustworthy, and a source of injury and loss to the public”.

20 Nature of the Offering

21 6. On or about January 1, 2000, Respondent Brombach began offering his insurance and investment
22 clients a private real estate investment and/or a local investment fund opportunity. Brombach described
23 the program to many potential investors as a Real Estate Investment Trust (“REIT”). The investment

1 opportunities were not carried on the books of HTK or Penn Mutual. From January 2000 through
2 September 2006, at least thirteen Washington residents, most of them clients of HTK and/or Penn Mutual,
3 invested in the purported REIT program and/or the local investment fund. Some of the investors were not
4 accredited or sophisticated. The investments that were made from January 2001 through September 2006
5 total at least \$694,750.

6 7. Brombach described the purported REIT to potential investors as a pool of investor funds used to
7 finance bridge loans on real estate projects. Brombach further described the REIT as a relatively liquid,
8 low-risk investment. Brombach offered potential investors specific interest rates ranging from 5.6% to
9 8.6% and the option of receiving monthly interest payments.

10 8. Brombach also offered at least one investor the opportunity to invest in a "local investment fund".
11 He described this as an interest bearing account into which local business people pool their funds and
12 receive a specific return. Brombach told potential investors that the local investment fund was a relatively
13 liquid low-risk investment.

14 9. Investors were provided with REIT and/or local investment fund account statements on Integrity
15 Group letterhead after they invested. Some of these account statements included securities that the
16 investors had purchased through HTK and Penn Mutual such as specific funds in Roth IRA's and 401K's
17 and Penn Mutual variable life insurance policies. The letterhead also indicated that the securities were
18 offered through HTK and Penn Mutual.

19 10. On August 25, 2006, HTK and Penn Mutual conducted a surprise examination of Respondents'
20 office in Marysville. After initial denials, Brombach admitted to selling unregistered securities and
21 creating false account statements on Integrity letterhead to HTK and Penn Mutual representatives.

1 11. Brombach continues to maintain contact with some investors. He has told at least one investor
2 that the funds are not readily available for withdrawal because the real estate is not moving as quickly as
3 he anticipated. However, he continues to reassure investors that he funds will be available soon.

4
5 Misrepresentations and Omissions

6 12. A Real Estate Investment Trust (“REIT”) is a company that manages a portfolio of real estate to
7 earn profits for shareholders. REIT’s receive income from rents, interest payments on mortgages, and on
8 capital gains as buildings are sold for profit. To avoid taxation at the corporate level, 75% or more the
9 REIT’s income must be from real property and 95% of its net earnings must be distributed to shareholders
10 annually. In order for a company to qualify as a REIT, it must: 1) be an entity that is taxable as a
11 corporation; 2) be managed by a board of directors or trustee; and 3) have a minimum of 100 shareholders.
12 Integrity Group and Brombach do not meet the standards to qualify as a REIT. Integrity Group is not
13 taxable as a corporation, it is a sole proprietorship. The purported REIT is not managed by a board of
14 directors or trustees, Brombach alone manages the investment. Finally, the purported REIT does not have
15 100 shareholders.

16 13. Further, Integrity Group and Brombach misrepresented the investment as a pool of investor funds
17 used to finance bridge loans on real estate project. According to Brombach, he did not use the funds to
18 purchase any real estate on behalf of the purported REIT and deposited the investor’s funds into a bank
19 account in his name. Further, the properties that Brombach later identified as part of the REIT, his former
20 residence and his office building in Marysville, are in his name and do not in any way secure individual
21 investments.

22 14. Integrity Group and Brombach misrepresented that the REIT and/or local investment fund was
23 being offered through HTK and/or Penn Mutual because no such investments were being carried on their

1 books. They did so by generating false account statements on Integrity Group letterhead, and by including
2 investments actually purchased through HTK and Penn Mutual on the same statements.

3 15. Integrity Group and Brombach failed to provide material information regarding the company and
4 investments including, but not limited to: financial statements; use of proceeds; identification and values
5 of property in the purported REIT; identification and value of the purported local investment fund; and
6 business background of Brombach.

7 Registration Status

8 16. Integrity Group is currently not registered to sell its securities in the State of Washington and has
9 not previously been so registered and no claim of exemption for said securities was on file with the
10 Division.

11 17. Integrity Group is currently not registered as a broker-dealer in the State of Washington and has
12 not previously been so registered.

13 18. Brombach is not currently registered as a broker-dealer or as a securities salesperson authorized to
14 sell the purported REIT investments in Washington and has not previously been so registered.

15
16 Based on the foregoing Tentative Findings of Fact, the following Conclusions of Law are made:

17 **CONCLUSIONS OF LAW**

18 1. The offer and sale of the purported REIT investments or local investment funds as described above
19 constitutes the offer and sale of a security as defined in RCW 21.20.005(10) and (12).

20 2. Stephen K. Brombach violated RCW 21.20.140, by offering and selling unregistered securities.

21 3. Stephen K. Brombach violated RCW 21.20.040, by offering and selling said securities while not
22 registered as broker-dealer or as a securities salesperson authorized to sell REIT investments in the State
23 of Washington.

1 4. Integrity Group Insurance & Financial Services violated RCW 21.20.140, by offering and selling
2 unregistered securities.

3 5. Integrity Group Insurance & Financial Services violated RCW 21.20.040, by offering and selling
4 said securities while not registered as a broker-dealer in the State of Washington.

5 6. The offer and/or sale of the purported REIT and/or local investment fund securities by
6 Respondents were made in violation of RCW 21.20.010 because, as set forth in the Findings of Fact,
7 Respondents made misstatements of material fact or omitted to state material facts necessary in order to
8 make the statements made, in light of circumstances under which they were made, not misleading.

9 7. Stephen K. Brombach has engaged in dishonest and unethical practices by:

- 10 a. As defined in WAC 460-22B-090(2), by effecting securities transactions not recorded on the
11 regular books and records of the broker-dealer which Stephen K. Brombach represented;
12 and
13 b. As defined by WAC 460-22B-090(13), effecting transactions in, or inducing the purchase of
14 any security by means of any manipulative, deceptive or fraudulent device, practice, plan,
15 program, design or contrivance.

16 8. The violations of RCW 21.20.010, RCW 21.20.140, and RCW 21.20.040, and the willful
17 dishonest and unethical conduct, provides grounds, pursuant to RCW 21.20.110(1), to bar Respondents'
18 future securities registrations, and for the imposition of fines and costs against both Respondents.

19 **EMERGENCY**

20 The Securities Administrator finds that an emergency exists, that continued violations of RCW
21 21.20.040, RCW 21.20.140, and RCW 21.20.010 constitute a threat to the investing public, and that a
22 summary order to cease and desist from those violations is in the public interest and necessary for the
23 protection of the investing public.

1 **SUMMARY ORDER**

2 Based on the foregoing:

3 NOW, THEREFORE, IT IS HEREBY ORDERED that Respondents Stephen K. Brombach and
4 Integrity Group Insurance & Financial Services shall each immediately cease and desist from violating RCW
5 21.20.140, the securities registration provision of the Securities Act.

6 It is further SUMMARILY ORDERED that Respondents Stephen K. Brombach and Integrity Group
7 Insurance & Financial Services shall each immediately cease and desist from violating
8 RCW 21.20.010, the anti-fraud provision of the Securities Act.

9 It is further SUMMARILY ORDERED that Respondents Stephen K. Brombach and Integrity Group
10 Insurance & Financial Services shall each immediately cease and desist from violating RCW 21.20.040, the
11 securities broker-dealer and securities salesperson registration provision of the Securities Act.

12
13 **NOTICE OF INTENT TO BAR REGISTRATIONS**

14 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions
15 of Law, the Securities Administrator intends to order that future securities registrations of Respondents
16 Stephen K. Brombach and Integrity Group Insurance & Financial Services as an investment adviser, broker-
17 dealer, investment adviser representative, or securities salesperson shall be permanently barred.

18
19 **NOTICE OF INTENT TO IMPOSE FINES**

20 Pursuant to RCW 21.20.110(4) and RCW 21.20.395(1), and based upon the above Tentative Findings
21 of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent
22 Stephen K. Brombach shall be liable for and shall pay a fine of \$50,000.

1 **NOTICE OF INTENT TO CHARGE COSTS**

2 Pursuant to RCW 21.20.110(7) and RCW 21.20.390(5), and based upon the above Tentative Findings
3 of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent
4 Stephen K. Brombach shall be liable for and shall pay the costs, fees, and other expenses incurred in the
5 conduct of the administrative investigation, hearing or court proceeding relating to this matter.

6
7 **AUTHORITY AND PROCEDURE**

8 This SUMMARY ORDER TO CEASE AND DESIST, NOTICE OF INTENT TO IMPOSE FINES,
9 AND CHARGE COSTS is entered pursuant to the provisions of RCW 21.20.390, and RCW 21.20.110 and
10 RCW 21.20.395 and is subject to the provisions of Chapter 34.05 RCW. Each Respondent may make a
11 written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
12 OPPORTUNITY FOR HEARING accompanying this Order.

13 If a Respondent does not request a hearing, the Securities Administrator intends to adopt the above
14 Tentative Findings of Fact and Conclusions of Law as final, enter a permanent order against that Respondent
15 to cease and desist from violations of the Securities Act, and enter an order imposing the fine and charging
16 costs, as described above.

17
18 **CONTINUING INVESTIGATION**

19 The Securities Division is continuing to investigate the practices of the Respondents herein to
20 determine the full extent of the violations of the Securities Act that may have occurred in this matter.

21
22 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE**

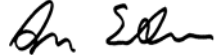
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DATED and ENTERED this 9th day of August, 2007.



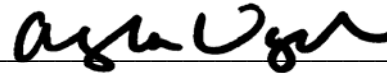
MICHAEL E. STEVENSON
Securities Administrator

Approved for entry by:



SUZANNE E. SARASON
Chief of Compliance & Examinations

Presented by:



ANGELA R. VOGEL
Enforcement Attorney