

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-07-069-11-FO01
Whether there has been a violation of the)
Securities Act of Washington by:) ENTRY OF FINDINGS OF FACT AND
) CONCLUSIONS OF LAW AND
David R. Huetten,) FINAL ORDER TO CEASE AND
d/b/a DRH Funding,) DESIST, IMPOSE A FINE, AND
d/b/a DRH Investment Corp.,) RECOVER COSTS.
d/b/a D R H One, Inc.,)
Respondent)

THE STATE OF WASHINGTON TO: David R. Huetten

INTRODUCTION

On April 11, 2011, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, Impose Fines, and Recover Costs S-07-069-11-SC01 (hereinafter "Statement of Charges"), against Respondent David R. Huetten, d/b/a DRH Funding, d/b/a DRH Investment Corp., d/b/a D R H One, Inc. The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing ("Notice"), and an Application for Adjudicative Hearing ("Application for Hearing"), were served on Respondent David R. Huetten on or about May 31, 2011.

The Notice advised that a written application for an administrative hearing on the Statement of Charges must be received within twenty days. Respondent David R. Huetten failed to request an administrative hearing within twenty days of service of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided or otherwise. On June 24, 2011, Respondent David R. Huetten returned the Application for

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND
FINAL ORDER TO CEASE AND DESIST, TO IMPOSE
A FINE, AND RECOVER COSTS

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
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1 Hearing and indicated that he waived his right to a hearing, and, in lieu thereof, submitted a
2 written statement for consideration by the Securities Administrator. After considering the
3 written statement, the Securities Administrator finds no material grounds for amendment of the
4 Statement of Charges. The Securities Administrator therefore will adopt as final the findings of
5 fact and conclusions of law as set forth in the Statement of Charges and enter a final order
6 against Respondent David R. Huetten to cease and desist from violations of the Securities Act, to
7 impose the fine and recover costs.
8

9 **FINDINGS OF FACT**

10 Respondent

11 1. David R. Huetten (“Huetten”) is an Oregon resident who previously did business
12 under the name DRH Funding as well as DRH Investment Corp. and D R H One, Inc., two
13 Washington corporations that he formed. Huetten used addresses in Washington and Oregon
14 for these businesses during the relevant time period.
15

16 Nature of the Offering

17 2. Between approximately 2004 and 2006, Huetten raised more than \$3 million
18 through the offer and sale of interests in various limited liabilities companies (LLC’s) to
19 dozens of investors, most of whom were residents of Washington. As described in detail
20 below, Huetten formed a number of LLC’s in connection with various real estate investment
21 programs that he offered. Investors in Huetten’s investment programs received a percentage
22 ownership interest in an LLC that was proportional to the amount of their investment.
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1 3. In some of Huetten’s investment programs, investor funds were to be pooled and
2 used to acquire and operate a specific apartment complex located in Texas. Huetten indicated
3 that he would improve the apartment complex, and sell it at a profit within a period of three to
4 six years. In other investment programs, investor funds were to be pooled and transferred to
5 specified third parties as part of real estate development projects. Investors in Huetten’s
6 investment programs were largely passive and did not actively participate in the management
7 of the apartment complexes or the real estate development projects. Investors relied on
8 Huetten and other third parties to generate a return on their investment.
9

10 4. Huetten received fees in connection with his investment programs, including a
11 “consultation” fee payable to one of his corporations that was based on the price of the
12 properties that were acquired by the LLC’s, as well as a monthly management fee that was
13 based on the rent that was collected from the apartment complexes.

14 5. Huetten found investors in a number of ways. Huetten taught adult continuing
15 education courses on real estate investing at several community colleges throughout western
16 Washington. Huetten used this position of trust and confidence to sell his investment
17 programs. Huetten also solicited prospective investors through his websites,
18 drhrealestate.com and drhfunding.com, which described his various investment programs and
19 the projected annual returns. Through his websites, Huetten marketed his investment
20 programs to investors who were “[l]ooking for low risk, high return investment opportunities
21 in real estate.” One of Huetten’s websites indicated that investments in apartments were
22 “Low risk and high return.”
23

1 “Investors Package.” The Investors Package included details of the offering and a schedule of
2 projected annual returns, which ranged from approximately 11% in the first year of the
3 investment to approximately 23% in the sixth year of the investment. Additional offering
4 material regarding the Broadmoor investment program was available on Huetten’s website,
5 drhrealestate.com.

6 Saginaw Crossings Partners, LLC Offering

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8 9. In 2005, Huetten raised approximately \$1 million from more than 30 investors
9 through the offer and sale of interests in Saginaw Crossings Partners, LLC (“Saginaw”), a
10 Texas company that was formed to purchase and operate an apartment complex in Saginaw,
11 Texas. Huetten sent e-mails to prospective investors regarding the Saginaw investment
12 program, which included an Investor Package, financial projections, and an LLC operating
13 agreement. Huetten’s website, drhrealestate.com, also included information relating to the
14 Saginaw offering, including photos of the apartment complex that was to be acquired, and a
15 schedule of projected annual returns, which ranged from approximately 12% in the first year
16 of the investment, to over 19% in the sixth year of the investment.

17 Garden Heights Partners, LLC Offering

18
19 10. In 2005, Huetten raised more than \$500,000 from approximately a dozen
20 investors through the offer and sale of interests in Garden Heights Partners, LLC (“Garden
21 Heights”), a Washington company that was formed as part of a real estate development
22 project in Forth Worth, Texas. According to offering materials for Garden Heights, investors
23 would “pool their capital” and loan it to a specified third party company as part of a joint
24

1 venture. The third party company was to use the funds to purchase land and for other
2 preliminary development costs associated with constructing eight luxury townhouses. The
3 third party was to pay 10% interest on the funds and a portion of the net sales profits from the
4 projects. On or about October 12, 2005, Huetten sent an e-mail to prospective investors
5 regarding the Garden Heights investment program, which stated: “We are looking for
6 \$500,000. Investors will receive a 10% interest PLUS a share of the profits. This could yield
7 you a total project return of 54% over approximately two years or less.”
8

9 Mansfield Land Development Partners, LLC Offering

10 11. In 2006, Huetten raised approximately \$460,000 from ten investors through the
11 offer and sale of interests in Mansfield Land Development Partners, LLC (“Mansfield”), a
12 Washington company that was formed as part of a residential property development project in
13 Mansfield, Texas. According to its operating agreement, Mansfield investors would “pool
14 their capital” for the purpose of buying shares in another specified company, which would use
15 the funds to purchase a 138 acre parcel of land and for preliminary development costs. The
16 operating agreement further stated: “In return for the loan of money, the members expect an
17 80% APR interest rate on their loaned capital.”
18

19 12. On or about July 25, 2006, Huetten sent an e-mail to prospective investors
20 regarding Mansfield with the subject line: “100% APR for accredited [sic] investors only.”
21 The e-mail further stated that it was an “incredible opportunity to dramatically increase your
22 net worth” and that “This deal pays a 100% APR secured by real estate.” The e-mail also
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1 stated that “We are looking for a pool of investors to deal the deal. Minimum participation
2 will be \$100K.”

3 13. On or about August 8, 2006, Huetten sent another e-mail to prospective
4 investors regarding Mansfield that stated: “Here is your chance to make 80% APR on a one
5 year investment.” The e-mail further stated: “Your return will be 80% APR. The term of the
6 note will be one year. At that time you will be cashed out and interest will be paid. In other
7 [words], a \$50,000 investment will get you back \$90,000 in 12 months. All of this will be
8 secured by a note and deed of trust on the property.” Huetten also provided investors with a
9 Mansfield Land Note Offering Circular, which represented that “With some preliminary land
10 development, the value will increase exponentially.”
11

12 Misrepresentations and Omissions

13 14. In the offer and sale of the investments described above, Huetten made material
14 misrepresentations and omissions to investors. As described above, Huetten disseminated
15 misleading e-mail solicitations that led investors to believe they could earn extraordinary
16 returns of up to 100%. The e-mail offers failed to disclose the basis and assumptions for these
17 purported returns, and the specific risks associated with each investment program. While
18 Huetten’s website misleading portrayed his investments as “Low risk and high return”, they in
19 fact involved significant risk.
20

21 15. Huetten provided investors with a one-paragraph “disclaimer” to sign, which
22 stated that the investment “involves a high degree of risk, risk common to the ownership of
23 real estate.” Such a disclaimer did not cure the misleading nature of Huetten’s e-mail
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1 solicitations or provide investors with meaningful disclosure of the specific risks involved in
2 each investment program. Among other things, Huetten failed to disclose the specific risks
3 associated with investing in older apartment complexes (the complexes described above were
4 built in 1965, 1972, and 1985 and were “C+ quality” properties) such as the risk that
5 substantial additional capital would be required to rehabilitate and repair the properties, as
6 well as associated regulatory risks. For example, one apartment complex was represented to
7 be in “very good condition for its age with no significant maintenance issues.” In fact, the
8 property had substantial maintenance issues such as plumbing problems and rotting balconies,
9 and city inspectors would not allow unoccupied apartments to be rented until costly repairs
10 were made. The property was ultimately sold in foreclosure, and investors lost their
11 investment capital.
12

13 16. For the investment programs involving transferring investor funds to third
14 parties for construction projects, Huetten failed to disclose the risk that the third parties could
15 default on their obligations and the significant risks associated with the construction projects
16 such as cost overruns and delays, the risk of having insufficient funds to complete the
17 projects, and environmental and regulations that could affect the value of the property.
18

19 Registration Status

20 17. Respondent David R. Huetten is not currently registered as a broker-dealer or
21 securities salesperson in the State of Washington and has not previously been so registered.
22

23 18. The limited liability company interests in Cavender Gardens Partners, LLC;
24 Broadmoor Partners, LLC; Saginaw Crossings Partners, LLC; Garden Heights Partners, LLC;
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1 and Mansfield Land Development Partners, LLC are not currently registered in the State of
2 Washington, have not previously been so registered, and no claim of exemption for said
3 securities is on file with the Securities Division.

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

5 **CONCLUSIONS OF LAW**

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7 1. The offer or sale of the investments described above each constitutes the offer or
8 sale of a security as defined in RCW 21.20.005(10) and (12).

9 2. Respondent David R. Huetten has violated RCW 21.20.140, the securities
10 registration provision of the Securities Act of Washington, by offering or selling said securities
11 while no registration for such offer or sale was on file with the Division.

12 3. Respondent David R. Huetten has violated RCW 21.20.040 by offering or selling
13 said securities while not registered as a securities salesperson or broker-dealer in the State of
14 Washington.

15 4. Respondent David R. Huetten has violated RCW 21.20.010, the anti-fraud
16 provision of the Securities Act, because, as set forth in the Tentative Findings of Fact, David R.
17 Huetten made misstatements of material facts or omitted to state material facts necessary in
18 order to make the statements made, in light of circumstances under which they were made, not
19 misleading.
20

1 **FINAL ORDER**

2 Based upon the foregoing and finding it in the public interest:

3 It is hereby ORDERED that Respondent David R. Huetten and his agents and employees
4 each shall cease and desist from offering or selling securities in violations of RCW 21.20.140,
5 the securities registration section of the Securities Act of Washington.

6 It is further ORDERED that Respondent David R. Huetten and his agents and
7 employees each shall cease and desist from acting as an unregistered securities broker-dealers
8 or salespersons in violation of RCW 21.20.040, the broker-dealer and securities salesperson
9 registration section of the Securities Act of Washington.

10 It is further ORDERED that Respondent David R. Huetten and his agents and employees
11 each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the
12 Securities Act of Washington.

13 It is further ORDERED that Respondent David R. Huetten shall be liable for and pay a
14 fine in the amount of \$10,000.

15 It is further ORDERED that Respondent David R. Huetten shall be liable for and pay
16 costs in the amount of \$5,000.

17 **AUTHORITY AND PROCEDURE**

18 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and RCW
19 21.20.395, and is subject to the provisions of RCW 21.20.440 and Chapter 34.05 RCW. The
20 Respondents have the right to petition the superior court for judicial review of this agency action
21 under the provisions of chapter 34.05 RCW. For the requirements for filing a Petition for
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1 Judicial Review, see RCW 34.05.510 and sections following. Pursuant to 21.20.395, a certified
2 copy of this order may be filed in Superior Court. If so filed, the clerk shall treat the order in the
3 same manner as a Superior Court judgment as to the fine, and the fine may be recorded,
4 enforced, or satisfied in like manner.

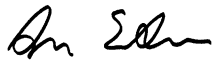
5 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

6 DATED and ENTERED this 28th day of June, 2011.

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10 WILLIAM M. BEATTY
11 Securities Administrator

12 Approved by:

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15 Suzanne E. Sarason
16 Chief of Enforcement

17 Presented by:

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19 Robert Kondrat
20 Enforcement Attorney

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