

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-09-043-09-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE
) OF INTENT TO ENTER AN ORDER TO
) CEASE AND DESIST, REVOKE
Hoss Mortgage Investors, Inc. and) SECURITIES REGISTRATION, REVOKE
Todd Allan Hoss,) SECURITIES BROKER-DEALER
) REGISTRATION, REVOKE SECURITIES
) SALESPERSON REGISTRATION,
Respondents) REVOKE EXEMPTIONS, AND IMPOSE A
) FINE
)

THE STATE OF WASHINGTON TO: Hoss Mortgage Investors, Inc.
Todd Allan Hoss

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Hoss Mortgage Investors, Inc. and Todd Allan Hoss, 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 Hoss Mortgage Investors, Inc. and Todd Allan Hoss to cease and desist from such violations; under RCW 21.20.280 to revoke Hoss Mortgage Investors, Inc.’s securities registration; under RCW 21.20.110 to revoke Hoss Mortgage Investors, Inc.’s securities broker-dealer registration and to revoke Todd Allan Hoss’s securities salesperson registration; under RCW 21.20.325 to revoke exemptions for Hoss Mortgage Investors, Inc. and for Todd Allan Hoss; and under RCW 21.20.110 and RCW 21.20.395 to impose a fine against Todd Allan Hoss.

1 The Securities Administrator finds as follows:

2 **TENTATIVE FINDINGS OF FACT**

3 RESPONDENTS

4
5 1. Hoss Mortgage Investors, Inc. ("HMI") is a Washington corporation with its
6 principal place of business located at 1001 Fourth Avenue Plaza, Suite 3330, in Seattle,
7 Washington. HMI is in the business of offering and selling investments in order to finance
8 business purpose loans to high-risk borrowers. HMI also provides loan management and
9 collection services and charges a loan servicing fee to its investors.
10

11 2. Todd Allan Hoss ("Hoss") is the President and sole shareholder of HMI.

12 REGISTRATION STATUS OF RESPONDENTS

13 3. HMI is currently registered with the Securities Division of the Washington State
14 Department of Financial Institutions ("Securities Division") under RCW 21.20.210 and
15 WAC chapter 460-33A to sell mortgage paper securities, as defined in WAC 460-33A-
16 015(4). HMI's mortgage paper securities registration (permit number 70013545) expires on
17 February 27, 2010.
18

19 4. HMI is currently registered as a securities broker-dealer under RCW 21.20.040.
20 HMI's securities broker-dealer registration (permit number 10005029) expires on February
21 27, 2010.
22

23 5. Todd Allan Hoss is currently registered with the Securities Division under RCW
24 21.20.040 as a securities salesperson for HMI. Hoss's securities salesperson registration
25 (permit number 20009496) expires on February 27, 2010. Hoss has been registered with the
Securities Division as a securities salesperson for more than twenty years. However, until

1 HMI was licensed in 2008, Hoss was not registered to operate his own mortgage paper
2 securities broker-dealer firm.

3 HMI'S LOAN AND INVESTMENT BUSINESS

4
5 6. HMI originates loans to borrowers using funds from HMI's own sources or funds
6 from investors. HMI earns a loan fee, customarily approximately 6% of the total loan
7 amount, each time that HMI closes a loan. When HMI makes a loan to a borrower, the loan
8 is evidenced by a promissory note that is made payable from the borrower to HMI and is
9 secured by a deed of trust from the borrower to HMI. Ordinarily, HMI then sells
10 participation interests in the loan to multiple investors or a "whole loan" investment to a
11 single investor.
12

13 SALE OF "PARTICIPATION LOAN" INVESTMENTS UNDER PERMIT

14 7. HMI registers with the Securities Division and then offers and sells "participation
15 loan" investments, which means that HMI offers and sells investments in which more than
16 one investor funds the loan. Each investor purchases a fractionalized interest (less than a
17 100% interest) in a specific loan to a specific HMI borrower.
18

19 SALE OF "WHOLE LOAN" INVESTMENTS UNDER CLAIMED EXEMPTION

20 8. HMI also offers and sells "whole loan" investments, in which a single investor
21 purchases 100% of the investment in a specific loan to a specific HMI borrower. Under the
22 exemption in RCW 21.20.320(5), "whole loan" investments are generally exempt from
23 securities registration if they are offered and sold as part of a single investment in a single
24 loan to a single borrower. However, when the investments are offered and sold as a group
25

1 of investments, the investment might not qualify for the exemption. Even if HMI's "whole
2 loan" investments are exempt from securities registration, the investments are still subject to
3 the anti-fraud provisions of the Washington Securities Act, as set forth in RCW 21.20.010.
4 Under the anti-fraud provisions, when offering and selling securities, HMI must give an
5 investor all of the material information that is necessary for the investor to determine the
6 nature and risks of the investment and HMI must not engage in any act, practice, or course
7 of business which operates or would operate as a fraud or deceit upon the investor.
8

9 HMI'S "WHOLE LOAN" INVESTMENT PRACTICES PUT INVESTORS AT RISK

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11 9. When offering and selling an HMI "whole loan" investment, HMI represents that
12 the investor is purchasing an investment that is secured by real property. However, because
13 HMI generally does not transfer or assign the note to the investor or record an assignment
14 for the deed of trust that purportedly secures the investment, the investor might be
15 considered an unsecured creditor of HMI at the time the investment is made.
16

17 10. When offering and selling HMI "whole loan" investments, sometimes the only
18 significant paperwork that HMI gives to the investor is an invoice for the investment.
19 Typically, the invoice includes an HMI loan number, a purported borrower's last name, the
20 amount of the investment, the due date for the promissory note that purportedly underlies
21 the investment, the annual interest rate for the investment (which is generally less than the
22 interest rate for the note that underlies the investment, because HMI keeps the "spread," or
23 the differential between the note interest rate and the interest rate that is paid by HMI to the
24 investor), a description of the lien position for the deed of trust that purportedly secures the
25

1 investment, and the balance that is due from the investor to HMI. An investor who has
2 received an invoice for their investment without any further documentation must rely on
3 HMI to evaluate, secure, and protect their investment.
4

5 11. When offering and selling “whole loan” investments, HMI and Hoss have each
6 represented to investors that the deeds of trust that secure HMI’s “whole loan” investments
7 are “held in street name” by HMI, but HMI and Hoss do not document whether the notes
8 and deeds of trust for HMI’s “whole loan” investments are held by an independent escrow
9 agent or in a trust relationship or whether the deeds of trust are held only by HMI. In
10 addition, HMI and Hoss have not demonstrated that HMI holds notes and deeds of trust that
11 correspond with all of the outstanding investments that have been sold by HMI and Hoss.
12 To date, HMI has refused to respond to a Securities Division subpoena requesting the most
13 recent complete HMI monthly account statement for each and every current HMI investor.
14

15 INADEQUATE DISCLOSURES FOR HMI “WHOLE LOAN” INVESTMENTS
16

17 12. When offering and selling an HMI “whole loan” investment, HMI has failed to
18 provide adequate disclosure information to the investor. When HMI does not deliver notes
19 to the investors and assign and record deeds of trust in the names of the investors, HMI has
20 failed to disclose that the investor might be an unsecured creditor of HMI at the
21 time that the investment is made. HMI has failed to disclose the intended use of the
22 investor’s funds. HMI has failed to give the investor any financial information, including a
23 loan application, a credit report, and a financial statement, from the purported borrower.
24 HMI has failed to give the investor property title information, including title insurance
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1 policies, for the real property that is represented to secure the investment. HMI has failed to
2 give the investor property valuation information, including property appraisals and complete
3 property descriptions, for the real property that is represented to secure the investment.
4

5 OPERATIONAL PROBLEMS FOR HMI

6 13. On May 12, 2009, HMI submitted its March 31, 2009 balance sheet to the
7 Securities Division. The balance sheet showed that HMI's checking account was
8 overdrawn by \$26,867.62. On May 13, 2009, the Securities Division sent HMI a letter
9 requesting an explanation for the overdraft and proof of the current account balance. HMI's
10 attorney sent a June 17, 2009 letter, representing that HMI's checking account was not
11 actually overdrawn and representing that HMI would provide a copy of the current account
12 balance "in a day or two." As of the date of entry of this Statement of Charges, HMI still
13 has not provided the Securities Division with a copy of the account balance.
14

15 14. During the past two months, HMI has also stopped sending monthly account
16 statements and monthly interest payments to at least some HMI investors. As of July 2,
17 2009, the Securities Division has received complaints from seven HMI investors who did
18 not receive their monthly account statements or their monthly payments for May, 2009 and
19 June, 2009. In addition, at least two HMI investors have made investments that were never
20 reflected on their HMI monthly account statements, even though they made the investments
21 prior to April, 2009, when monthly account statements were still being sent to the investors.
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1 each failed to disclose that 100% of the Sierra II, LLC participation loan had already been
2 sold to other investors and that this investor received no interest in the participation loan.
3 HMI and Hoss each failed to disclose that the investment was unsecured at the time it was
4 sold to the investor.
5

6 Later Activities by HMI and by Hoss

7 18. Almost a year after the investment was made, the investor discovered that HMI
8 had not recorded the assignment of the investor's purported interest in the Sierra II, LLC
9 \$2,400,000 deed of trust. The investor went to HMI and demanded to receive a recorded
10 assignment of the deed of trust. Instead, HMI and Hoss gave the investor a new deed of
11 trust, purportedly from Sierra II, LLC to HMI, in the amount of \$170,000, which
12 represented the investor's original investment of \$100,000, plus a contribution of \$70,000
13 from the investor's son. HMI and Hoss also gave the investor an assignment of the
14 \$170,000 deed of trust from HMI to the investor. The \$170,000 deed of trust was recorded
15 on May 14, 2009 and the assignment of the deed of trust was recorded on May 18, 2009.
16 From a review of the public records, it appears that the \$170,000 deed of trust is a third
17 position deed of trust.
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19

20 B.) VON LOSSOW INVESTMENTS

21 \$220,000 HMI Loan to Von Lossow

22 19. In January, 2008, HMI and Hoss originated a loan to an HMI borrower named
23 Von Lossow. The amount of the loan was \$220,000. Von Lossow gave HMI a \$220,000
24 promissory note and a \$220,000 first position deed of trust against real property located at
25

1 8525 NE Juanita Drive in Kirkland, Washington. In January, 2008, HMI recorded the
2 \$220,000 deed of trust.

3 Offer and Sale of the Same \$220,000 HMI Von Lossow Investment to Two Different
4 Investors: Investor A and Investor B

5 20. In February, 2008, HMI and Hoss offered and sold a \$220,000 “whole loan”
6 investment in the Von Lossow note and deed of trust to Investor A, but HMI and Hoss never
7 assigned the Von Lossow note and deed of trust to Investor A. In October 2008, HMI and
8 Hoss offered and sold a \$220,000 “whole loan” investment in the Von Lossow note and
9 deed of trust to Investor B, but HMI and Hoss never assigned the Von Lossow note and
10 deed of trust to Investor B and the Von Lossow investment was never reflected on Investor
11 B’s monthly account statements from HMI. HMI represented to Investor A and to Investor
12 B that their \$220,000 Von Lossow investments would pay 15% annual interest. Investor A
13 and Investor B did not participate in the management of the Von Lossow loan and they were
14 each relying on HMI for loan management and collection services. The two investments
15 were not sold as part of a registered securities offering.

16 Misrepresentations and Omissions

17 21. When offering and selling the two \$220,000 Von Lossow investments, HMI and
18 Hoss represented that Investor A and Investor B would each have a \$220,000 first position
19 deed of trust against real property located at 8525 NE Juanita Drive in Kirkland,
20 Washington to secure their investment. HMI and Hoss each failed to disclose that the two
21 investments were unsecured because the Von Lossow note and deed of trust was never
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1 assigned to either of the investors. HMI and Hoss also failed to disclose the intended and
2 the actual use of the investors' funds.

3 Later Activities by Hoss and by HMI

4
5 22. In December 2008, HMI and Hoss reconveyed the deed of trust that secured the
6 \$220,000 Von Lossow loan, without telling Investor A or Investor B that the property had
7 been sold and without repaying either of the investors. HMI continued to make monthly
8 interest payments to both of the investors, as if the \$220,000 Von Lossow loan were still
9 outstanding. Later, after Investor B discovered that the Von Lossow property had been
10 sold, Investor B confronted Hoss and demanded the repayment of the investment. HMI and
11 Hoss gave Investor B a check in February, 2009 to repay the investment in full. Several
12 weeks later, after Investor A discovered that the Von Lossow property had been sold,
13 Investor A confronted Hoss to demand the repayment of the investment. In April, 2009,
14 HMI and Hoss assigned a substitute \$240,000 deed of trust against property located in San
15 Juan County, Washington from HMI to Investor A.
16

17 HMI Written Repurchase Guarantee

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19 23. When offering and selling the \$220,000 HMI Von Lossow investment to Investor B,
20 HMI and Hoss each represented in a written "buyback agreement" that HMI would repurchase
21 Investor B's \$220,000 Von Lossow investment if Investor B were ever dissatisfied with any
22 aspect of the transaction. Later, HMI did honor the repurchase guarantee to Investor B.
23 However, in the audited financial statements that HMI has filed with the Securities Division,
24 HMI did not disclose any repurchase guarantees to investors.
25

1 HMI and Hoss each failed to disclose that the purported borrower, Von Lossow, did not
2 receive any loan proceeds from an \$88,000 loan from HMI. HMI and Hoss each failed to
3 disclose the intended and the actual use of the investor's funds.
4

5 Offer and Sale of a \$15,000 HMI Von Lossow Investment

6 27. In October, 2008, HMI and Hoss offered and sold a \$15,000 Von Lossow
7 investment to an HMI investor. HMI and Hoss represented to the investor that the
8 investment would pay 17% annual interest. The investor did not participate in the
9 management of the investment and the investor was relying on HMI for loan management
10 and collection services. The investment was not sold as part of a registered securities
11 offering. For the past two months, the investor has not received any monthly interest
12 payments for the investment and the investor has stopped receiving monthly account
13 statements from HMI.
14

15 Misrepresentations and Omissions

16 28. When offering and selling the \$15,000 Von Lossow investment, HMI and Hoss
17 each represented to the investor that the investment would be secured by a second position
18 deed of trust against real property located at 8525 NE Juanita Drive in Kirkland,
19 Washington. HMI and Hoss each failed to disclose that the investment was unsecured.
20 HMI and Hoss each failed to disclose that the purported borrower, Von Lossow, did not
21 receive any loan proceeds from a \$15,000 loan from HMI. HMI and Hoss each failed to
22 disclose the intended and the actual use of the investor's funds.
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1 C.) DE CHANTAL OR OLYMPIC MEADOWS OR NORTH PACIFIC LAND AND
2 TIMBER INC. (“NPLT”) OR DEER PARK INVESTMENTS

3 HMI De Chantal Loans

4 29. As of the date of entry of this Statement of Charges, public records show that
5 HMI has loaned more than \$2.5 million to a borrower named De Chantal and has taken back
6 more than 40 deeds of trust as security for the loans. The deeds of trust were granted to
7 HMI by North Pacific Land and Timber Inc., the trustee for the Olympic Meadows Land
8 Trust, against four parcels of land in Clallam County, for a development known as Deer
9 Park. The loans proceeds were to be used to improve the four parcels of land.

10 HMI De Chantal Investments

11 30. It appears that HMI offered and sold investments in the De Chantal promissory
12 notes and deeds of trust to HMI investors. The Securities Division has found that in 2007
13 and 2008, HMI and Hoss have offered and sold at least 15 De Chantal investments totaling
14 more than \$700,000 to at least seven HMI investors. When offering and selling the
15 investments, HMI and Hoss represented that the investors were purchasing “whole note”
16 investments, but HMI would hold the notes. The investors did not participate in the
17 management of their investments and they were relying on HMI for loan management and
18 collection services. HMI and Hoss represented that the investments would pay at least 15%
19 annual interest. None of the investments were sold as part of a registered securities
20 offering. For the past two months, the investors have not received monthly interest
21 payments for their investments and the investors have not received monthly account
22 statements from HMI.
23
24
25

1 Misrepresentations and Omissions

2 31. When offering and selling the De Chantal note and deed of trust investments,
3 HMI and Hoss each represented that the investments would be secured by deeds of trust.
4 However, because HMI failed to assign the notes and to record deeds of trust for the
5 investors, the investors were unsecured creditors of HMI at the time that the investments
6 were offered and sold. Also, it appears that the parcels of land that were intended to secure
7 the investments have been over-encumbered by HMI and that in any event there might be
8 inadequate value in the real property to serve as security for some of the investments. For
9 one of the parcels, tax parcel #053008449050, it appears that HMI has offered and sold
10 investments totaling approximately \$475,000, but the 2007 tax assessed value of the land
11 that was subject to the deeds of trust was less than \$100,000 and the 2007 appraised value of
12 the land was approximately \$300,000.
13
14

15 D.) WOODS LAKE INVESTMENT

16 HMI Woods Lake Loan

17
18 32. In February, 2009, HMI negotiated an \$810,000 loan to De Chantal. This loan
19 was secured by an \$810,000 deed of trust that was recorded by HMI against property
20 located at Woods Lake in Snohomish County, Washington. However, as of July 2, 2009,
21 HMI had only funded about \$600,000 of the Woods Lake loan.
22

23 Offer and Sale of a \$163,215 Woods Lake Investment

24 33. During February, 2009, HMI and Hoss offered and sold a \$163,215 investment in
25 the \$810,000 Woods Lake promissory note and first position deed of trust to an HMI
investor. HMI and Hoss each represented to the investor that the investor's funds would be

1 used to partially fund an \$810,000 loan to HMI's borrower, De Chantal. HMI and Hoss
2 each represented that the loan proceeds would be used to improve De Chantal's Woods
3 Lake property, located in Snohomish County. The investor did not participate in the
4 management of the loan and the investor was relying upon HMI for loan management and
5 collection services. HMI and Hoss represented that the investment would pay 15% annual
6 interest, but the investor has never received any payments from the investment, even though
7 HMI was supposed to collect up-front reserves for the loan. The Woods Lake investment
8 was not listed on the investor's HMI monthly account statements from February, 2009
9 through April, 2009.
10
11

12 34. The offer and sale of the \$810,000 Woods Lake investment was not part of a
13 registered securities offering, but HMI did make a Rule 506, Regulation D exemption filing
14 with the Securities & Exchange Commission. However, HMI did not make any exemption
15 filing with the Securities Division.
16

17 HMI Written Repurchase Guarantee

18 35. When offering and selling the \$163,215 Woods Lake investment, HMI and Hoss
19 each represented in writing to the investor that HMI would repurchase the investment within
20 sixty days if the Woods Lake loan went into default. The repurchase agreement was supposed
21 to remain confidential and not be disclosed by the investor, or it would become null and void.
22 Based upon the purported repurchase guarantee, the investor increased the amount of his
23 investment from \$100,000 to \$163,215. In the audited financial statements that HMI has filed
24 with the Securities Division, HMI did not disclose any repurchase guarantees to investors.
25

1 Misrepresentations and Omissions

2 36. When offering and selling the \$163,215 HMI Woods Lake investment, HMI and
3 Hoss each failed to disclose that the investor was an unsecured creditor of HMI when the
4 investment was made. HMI and Hoss each failed to disclose to the investor that HMI might
5 be unable to fully fund the Woods Lake loan and that insufficient funding of the loan might
6 jeopardize the Woods Lake development project and the borrower's ability to repay the
7 loan. HMI and Hoss also failed to disclose the intended and the actual use of the investor's
8 funds.
9

10 E.) CORNERSTONE INVESTMENTS

11 Offer and Sale of Cornerstone Investments

12 13 37. During 2008, HMI and Hoss have offered and sold to at least four investors
14 promissory note and deed of trust investments totaling more than \$200,000, from a
15 borrower named Cornerstone. HMI and Hoss represented that the investments would pay at
16 least 15% annual interest. The investors did not participate in the management of the
17 Cornerstone loans and the investors were relying upon HMI for loan management and
18 collection services. The investments were not sold as part of a registered securities offering.
19 For the past two months, the investors have not received the monthly interest payments for
20 their investments and the investors have stopped receiving HMI monthly account
21 statements.
22

23 Misrepresentations and Omissions

24 25 38. When offering and selling the Cornerstone investments, HMI and Hoss each
represented to investors that they would have a first position deed of trust to secure their

1 investments. HMI and Hoss each failed to disclose that Cornerstone did not own the real
2 property that was supposed to secure the investments and that the investments were unsecured.
3 HMI and Hoss each failed to disclose background information about the purported borrower.
4 HMI and Hoss have each failed to disclose the intended and the actual use of the investors'
5 funds.
6

7 Later Representations by Hoss

8 39. Several months after the Cornerstone investments were made, Hoss told at least
9 two of the investors that they were supposed to have a first position deed of trust against an
10 unfinished house in Bellevue that is known as the Cheban property. However, the Cheban
11 property was not owned by Cornerstone. The property had been owned by a builder named
12 Sergey Cheban, who might have previously done business under the name of Cornerstone.
13 On August 26, 2008, Cheban quit claimed the property to HMI 1 LLC, an affiliate of HMI
14 that was managed by Hoss. HMI and Hoss offered and sold at least one of the Cornerstone
15 investments after the property was quit claimed to HMI 1 LLC and without disclosing that
16 the property had been quit claimed to HMI 1 LLC.
17
18

19 HMI 1 LLC INVESTMENTS

20 Offer and Sale of HMI 1 LLC Membership Investments

21 40. During 2008, Hoss and a registered securities salesperson for HMI offered and
22 sold investments totaling approximately \$1,175,000 in HMI 1 LLC, a Washington limited
23 liability company, to at least four Washington investors. At that time, Hoss was the
24 managing member of HMI 1 LLC.
25

1 41. HMI 1 LLC and Hoss offered and sold LLC membership interests in HMI 1 LLC
2 to the investors. HMI 1 LLC and Hoss represented to the investors that Hoss would manage
3 the activities of the LLC and that the investors would have no managerial responsibilities.
4 HMI 1 LLC and Hoss represented to the investors that they would receive 15% annual
5 interest on their HMI 1 LLC investments.
6

7 42. HMI 1 LLC and Hoss represented to the investors that HMI 1 LLC was raising a
8 total of \$1,900,000. HMI 1 LLC and Hoss represented to the investors that their funds
9 would be pooled together and used to purchase a \$1,700,000 promissory note and first
10 position deed of trust from Sergey Cheban to Westsound Bank and to complete the
11 construction of the Cheban house. HMI 1 LLC and Hoss represented to the investors that
12 the value of the Cheban home would be approximately \$3.3 million after completion. HMI
13 1 LLC and Hoss represented that the LLC would have a first position deed of trust to secure
14 the members' investment. HMI 1 LLC and Hoss represented to the HMI 1 LLC investors
15 that HMI would subordinate deeds of trust totaling approximately \$570,000 that had been
16 previously recorded by HMI against the Cheban property.
17
18

19 Dishonest and Unethical Conduct by Hoss Regarding HMI 1 LLC Investments

20 43. In February, 2009, HMI 1 LLC sent Form K-1 tax returns to each of the HMI 1
21 LLC members. In April, 2009, one of the investors called a membership meeting to remove
22 Hoss as the managing member of HMI 1 LLC. Shortly thereafter, Hoss claimed that one of
23 the members, who had invested approximately \$575,000 in HMI 1 LLC, had actually made
24 a personal loan to Hoss, rather than investing in HMI 1 LLC and that Hoss was entitled to
25 vote for that investor's membership interest. In May, 2009, the investor told a Securities

1 Division employee that she never made a personal loan to Hoss and that she has never even
2 met Hoss. The investor said that she purchased a membership interest in HMI 1 LLC.

3 44. On or about August 26, 2008, without the knowledge of the HMI 1 LLC
4 investors, Hoss accepted a quit claim deed and a deed in lieu of foreclosure from Cheban.
5 As a result, the HMI 1 LLC investors' interest in the Cheban property was subject to
6 approximately \$570,000 worth of HMI deeds of trust.
7

8 45. On or about February 23, 2009, without the knowledge of the HMI 1 LLC
9 investors, Hoss signed documents authorizing HMI 1 LLC to borrow approximately
10 \$700,000 from Seattle Funding Group. Hoss gave Seattle Funding Group a \$700,000 first
11 position deed of trust against the Cheban property to secure the HMI 1 LLC loan. The deed
12 of trust listed Hoss as the sole member of HMI 1 LLC. Shortly after Hoss borrowed the
13 \$700,000 from Seattle Funding Group, Hoss repaid \$220,000 to one of the HMI Von
14 Lossow investors.
15

16
17 NON-COMPLIANCE WITH SECURITIES DIVISION SUBPOENAS

18 46. HMI and Hoss have each failed to provide a complete response to an amended
19 subpoena duces tecum that was issued by the Securities Division on May 13, 2009 and Hoss
20 has failed to provide testimony pursuant to an amended subpoena for testimony that was
21 issued by the Securities Division on May 13, 2009.
22

23 NEED FOR FURTHER INVESTIGATION

24 47. The Securities Division needs to investigate further to determine whether HMI
25 and Hoss have offered and sold promissory notes from a fictitious borrower to HMI
investors, whether HMI holds promissory notes and deeds of trust to secure all of its current

1 outstanding investments, and whether HMI can account for the use of investor funds when
2 the investors have purchased an interest in loans that were never funded by HMI. The
3 Securities Division also needs to investigate whether there have been any further violations
4 of the Securities Act by Respondents or their representatives.
5

6 Based on the Tentative Findings of Fact, the following Conclusions of Law are made:

7 **CONCLUSIONS OF LAW**

8 1. The offer or sale of the notes, investments in notes and deeds of trust, mortgage
9 paper securities, or LLC membership interests described above constitutes the offer or sale
10 of a security as defined in RCW 21.20.005(10) and (12), whether in the form of a note, an
11 investment contract, or an evidence of indebtedness.
12

13 2. As set forth above in the Tentative Findings of Fact, Respondents, HMI and
14 Hoss, have each made untrue statements of material fact or omitted to state material facts
15 necessary in order to make the statements made, in the light of the circumstances under
16 which they are made, not misleading, in violation of RCW 21.20.010, the anti-fraud section
17 of the Securities Act of Washington. As set forth above in paragraphs 8 through 39, HMI
18 and Hoss have also engaged in an act, practice, or course of business which operates or
19 would operate as a fraud or deceit upon investors in violation of RCW 21.20.010.
20

21 3. As set forth above in paragraph 29 and paragraph 30 of the Tentative Findings
22 of Fact, HMI and Hoss have each offered and sold unregistered securities in violation of
23 RCW 21.20.140, the securities registration section of the Securities Act of Washington.
24

25 4. As set forth above in paragraph 25 and paragraph 37 of the Tentative Findings
of Fact, HMI and Hoss have each guaranteed a customer against loss in a securities

1 transaction effected by HMI with or for such customer in violation of WAC 460-21B-
2 060(15) and 460-22B-090(14).

3 5. As set forth above in the Tentative Findings of Fact, when offering and selling
4 securities, HMI and Hoss have each willfully violated or willfully failed to comply with a
5 provision of the Securities Act, which is a basis for revoking a securities broker-dealer
6 license and a securities salesperson registration pursuant to RCW 21.20.110(1)(b).
7

8 6. As set forth above in the Tentative Findings of Fact, HMI and Hoss have each
9 committed dishonest or unethical practices in the securities business, which violates the
10 rules set forth in WAC 460-21B-060 and WAC 460-22B-090 and is a basis for revoking a
11 securities broker-dealer registration and a securities salesperson registration pursuant to
12 RCW 21.20.110(1)(g).
13

14 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

15 Pursuant to RCW 21.20.390(1), and based on the above Tentative Findings of Fact
16 and Conclusions of Law, the Securities Administrator intends to order that Respondents,
17 HMI and Todd Allan Hoss, and their agents and employees, each shall cease and desist
18 from any violations of RCW 21.20.010 and RCW 21.20.140.
19

20 **NOTICE OF INTENT TO REVOKE HMI'S SECURITIES OFFERING**
21 **REGISTRATION, TO REVOKE HMI'S SECURITIES BROKER-DEALER**
22 **REGISTRATION, AND TO REVOKE TODD ALLAN HOSS'S SECURITES**
23 **SALESPERSON REGISTRATION**

24 Pursuant to RCW 21.20.280 and RCW 21.20.110(1)(b) and (g), and based on the
25 above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
intends to order that HMI's securities offering registration, HMI's securities broker-dealer
registration, and Hoss's securities salesperson registration shall each be revoked.

1 forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
2 HEARING accompanying this order.

3 If a respondent fails to make a timely hearing request, the Securities Administrator
4 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to
5 impose the sanctions that are sought against that respondent: to order the respondent to cease
6 and desist; to enter a final order revoking securities offering registration; to enter a final order
7 revoking securities broker-dealer registration and securities salesperson registration; to enter a
8 final order revoking the securities exemptions set forth in RCW 21.20.320(1), (5), (8), (9),
9 (11), and (17); and to impose a fine.
10
11

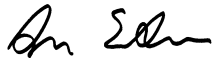
12 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

13 DATED AND ENTERED this 8th day of July, 2009

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17 MICHAEL E. STEVENSON
18 Securities Administrator

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20 Approved by:

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23 Suzanne E. Sarason
24 Chief of Enforcement

20 Presented by:

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23 Janet So
24 Enforcement Attorney