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**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:

JAMES WYNSTRA; RITA LAHMAN;  
HOMESTEAD NORTHWEST, INC.;  
HOMESTEAD NW DEVELOPMENT  
COMPANY; HOMESTAR NORTHWEST  
LLC; GREAT LINKS RESORT LLC; PRO  
BAY LLC; SUMAS MOUNTAIN VILLAGE,  
INC.,

Respondents.

Order Number S-09-046-11-SC01

STATEMENT OF CHARGES AND NOTICE  
OF INTENT TO ENTER AN ORDER TO  
CEASE AND DESIST, IMPOSE FINES, AND  
RECOVER COSTS

THE STATE OF WASHINGTON TO:

James Wynstra  
Rita Lahman  
Homestead Northwest, Inc.  
Homestead NW Development Company  
Homestar Northwest LLC  
Great Links Resort LLC  
Pro Bay LLC  
Sumas Mountain Village, Inc.

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondents, James Wynstra; Rita Lahman; Homestead Northwest, Inc.; Homestead NW Development Company; Homestar Northwest LLC; Great Links Resort LLC; Pro Bay LLC; and Sumas Mountain Village, Inc., have 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, to impose fines pursuant to RCW 21.20.395, and to charge costs pursuant to RCW 21.20.390(5).

The Securities Administrator finds as follows:

STATEMENT OF CHARGES AND NOTICE OF INTENT TO  
ENTER AN ORDER TO CEASE AND DESIST, IMPOSE FINES,  
AND RECOVER COSTS

1

**DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760**

1 **TENTATIVE FINDINGS OF FACT**

2 Respondents

3 1. James Wynstra (“Wynstra”) is a resident of Lynden, Washington. Wynstra is the CEO of  
4 the “Homestead Companies,” which is the name for a group of entities that has been involved in  
5 developing real estate, golf courses, waterslides, and time shares. In addition, Wynstra is an attorney  
6 who has been licensed with the Washington State Bar Association since 1977. Until 2009, Wynstra  
7 operated a law practice in Lynden which handled escrow, real estate transactions, and estate planning  
8 matters. His law license is currently on inactive status.

9 2. Rita Lahman (“Lahman”) is a resident of Lynden, Washington. She is the administrative  
10 assistant to James Wynstra.

11 3. Homestead Northwest, Inc. (“Homestead Northwest”) is a Washington corporation formed  
12 on July 18, 1991. Homestead Northwest is one of the Homestead Companies.

13 4. Homestead NW Development Company (“Dev Co”) is a Washington corporation formed  
14 on June 6, 1997. Dev Co is one of the Homestead Companies.

15 5. Homestar Northwest LLC (“Homestar”) is a Washington limited liability company formed  
16 on December 5, 2003. Homestar is a subsidiary of Homestead Northwest and is one of the Homestead  
17 Companies.

18 6. Great Links Resort LLC (“Great Links”) is a Washington limited liability company formed  
19 on September 20, 2002. Great Links is a subsidiary of Homestead Northwest and is one of the  
20 Homestead Companies.

21 7. Pro Bay LLC (“Pro Bay”) is a Washington limited liability company formed on June 21,  
22 2006. Pro Bay is a subsidiary of Homestead Northwest and is one of the Homestead Companies.

1 8. Sumas Mountain Village, Inc. (“Sumas Mt. Village”) is a Washington corporation formed  
2 on September 13, 1989. Sumas Mt. Village is one of the Homestead Companies.

3 Background

4 9. James Wynstra (“Wynstra”) previously operated Tulip Financial Services, Inc. (“Tulip  
5 Financial Services”), a company based in Lynden, Washington which has ceased doing business. From  
6 1986 to 1987, Tulip Financial Services was registered as a mortgage broker dealer with the Washington  
7 State Securities Division, which was then part of the Department of Licensing, with a \$2 million registered  
8 amount. In April 1987, Wynstra registered Tulip Financial Services, Inc. as a debenture company with the  
9 Securities Division with a \$1.5 million offering amount. Tulip Financial Services subsequently offered and  
10 sold debentures, which are unsecured debt securities. The proceeds were used to develop the Dutch Village  
11 Mall in Lynden, Washington. After its one-year permit expired, Tulip Financial Services did not renew its  
12 debenture company registration and redeemed its debentures.

13 Introduction

14 10. From at least 1989 to 2009, Respondents James Wynstra, Rita Lahman, Homestead  
15 Northwest, and related companies offered and sold an estimated \$121 million in unregistered real estate  
16 investments in the State of Washington. The investments typically were promissory notes with one year  
17 terms which offered 8% to 10% interest and were secured by a deed of trust. The Respondents sold at least  
18 1,341 investments. In April 2009, the Respondents ceased making interest payments and ceased redeeming  
19 notes for most investors. To date, an estimated 350 investors still have an estimated \$65 million in  
20 outstanding investments with the Homestead Companies.

1 Offer of Investments

2 11. In approximately August 1989, James Wynstra formed Sumas Mountain Village, Inc.  
3 (“Sumas Mt. Village”). In 1991, Wynstra formed Homestead Northwest, Inc. (“Homestead Northwest”), a  
4 real estate development company. In 1997, Wynstra formed Homestead NW Development Company (“Dev  
5 Co”) as a separate real estate development company. Subsequently, Homestead Northwest formed  
6 subsidiary entities Great Links Resort LLC (“Great Links”) in 2002, Homestar Northwest (“Homestar”) in  
7 2003, and Pro Bay LLC (“Pro Bay”) in 2006. Homestead Northwest, Dev Co, Great Links, Homestar, Pro  
8 Bay, and Sumas Mt. Village (collectively “The Homestead Companies”) offered investments in the form of  
9 promissory notes or interest paying equity investments to raise funds for real estate development projects.

10 12. The Homestead Companies offered and sold investments to individuals in and around Lynden,  
11 Washington. Most investors heard about the investments through word of mouth. Other investors  
12 responded to newspaper advertisements which promoted the available interest rates. In addition, the  
13 Homestead Companies sent existing investors newsletters which provided updates about the activities of the  
14 Homestead Companies. Until April 2009, these newsletters presented a positive view of the Homestead  
15 Companies and frequently discussed newly available investments and interest rates. The newsletters and  
16 advertisements typically instructed individuals to contact Wynstra’s assistant Rita Lahman regarding the  
17 available investments.

18 13. Individuals interested in investing typically met with James Wynstra or his assistant Rita  
19 Lahman at the Homestead Companies office in Lynden. Between 2006 and 2008, Rita Lahman received  
20 bonuses from the Homestead Companies which were calculated as a percentage of the face value of the  
21 notes signed by the Homestead Companies.

1           14.     Wynstra and/or Lahman typically explained the terms of the investment, informed investors  
2 that their funds would be used for real estate development, and explained which investments were available.  
3 The investments included various promissory note series, investment group tenancies in common, and  
4 equity investments, most backed by a deed of trust on real estate. Sometimes an investor would choose the  
5 particular project or note series he would be investing in, but more often investors were placed by Wynstra  
6 and/or Lahman without input from the investor.

7           15.     The Homestead Companies offered interest rates that were designed to be higher than what an  
8 investor could obtain at a bank. In the 1990s, the Homestead Companies offered notes with interest rates as  
9 high as 10% to 12% per annum and terms between one to five years. In the 2000s, the Homestead  
10 Companies most frequently offered 8% annual interest. Interest was paid monthly, or compounded if not  
11 paid. When the terms of a promissory note expired, investors were allowed to roll over their investment by  
12 signing a new promissory note. The new promissory note could be either a renewal in the same note series,  
13 or could represent a transfer to a new note series. Investors were generally granted withdrawals on request,  
14 and could contribute additional capital to the note at any time. Wynstra signed all the promissory notes.

15           16.     Neither Wynstra nor Lahman provided any prospectus, offering circular, financial statements,  
16 or disclosure documents to investors. They did not screen investors for net worth, income, investment  
17 experience, risk tolerance, or investment objectives. Many of the investors were not accredited or  
18 sophisticated investors.

19           17.     The high yield offered by the Homestead Companies enticed many investors, especially  
20 elderly fixed-income investors, to leave their funds with Homestead in order to continue receiving monthly  
21 interest payments. The source of the interest payments was not disclosed to investors. Many of the  
22 investors were elderly retirees who depended on the income provided by their Homestead Companies

investments to meet living expenses. These investors experienced hardships when the Homestead Companies abruptly stopped paying interest in April 2009.

Investments Sold

18. The Homestead Companies offered and sold three types of investments: individual promissory notes, which were offered in different series of notes; investment group tenancies in common; and equity investments. Many investors participated in more than one of the investment programs. The following securities were sold:

<u>Investment Program (offered by)</u>	<u>Number of Investments</u>	<u>Amount Invested</u>
<i>Individual Note Programs</i>		
High Yield Triple Ten (Homestead NW)	14	\$311,000.00
CS (Dev Co)	268	\$30,177,975.18
HRG (Homestead NW)	2	\$250,000.00
HSI (Homestar)	8	\$2,020,000.00
HHLT (Great Links)	9	\$720,000.00
Series 1 (Homestead NW)	445	\$21,386,752.44
Series 2 (Homestead NW)	23	\$1,296,947.86
Series 5 (Homestead NW)	28	\$951,576.67
Sumas Mt Village (Sumas Mt. Village)	31	\$774,433.69
Other Investments (Homestead NW)	2	\$320,000.00
STI (Dev Co)	14	\$790,558.25
WG (Dev Co)	2	\$154,761.04
<b>Subtotal</b>	846	\$61,939,357.00

*Investment Group Tenancies in Common*

Birch Bay Waterfront Investment Group (Homestar)	28	\$3,109,921.92
Belltown Place Investment Group (Homestar)	24	\$2,397,588.76
Cascade Commons Investment Group	20	\$2,555,351.87
Correll Park Group (Dev Co)	14	\$1,374,937.13
Desert Canyon Columbia Crest Investment Group (Great Links)	17	\$2,790,000.00
Desert Canyon Land Group (Great Links)	33	\$3,007,032.26
Dodd Street Station Investment Group (Dev Co)	16	\$1,857,907.62
Great Links Investment Group (Great Links)	30	\$2,759,920

1	Homestead Investment Group (Homestead NW)	32	\$3,792,164
	Homestead Motel Group (Homestead NW)	40	\$3,391,232
2	Island Place Investment Group (Dev Co)	24	\$3,321,995.65
	Lynden Property Investment Group (Dev Co)	26	\$3,464,500.00
3	Mariner's Ridge Investment Group (Homestar)	26	\$2,820,767.76
	Mariner's Watch Investment Group (Homestar)	21	\$2,794,230.95
4	PV2 Investment Group (Homestar)	16	\$2,355,255
	Real Vision Investment Group (Homestar)	7	\$654,416
5	Vinup Village Investment Group (Homestar)	16	\$2,066,912
	W-8 Investment Group (Homestar)	22	\$2,053,859
6	Sea Links Investment Group (Homestar)	62	\$7,966,477
	<b>Subtotal</b>	<u>474</u>	<u>\$54,534,468.92</u>
7	<i>Equity Investments</i>		
8	Pro Bay LLC	21	\$4,773,434.82
9	<b>Subtotal</b>	<u>21</u>	<u>\$4,773,434.82</u>
10	<b>TOTAL</b>	<u>1341</u>	<u>\$121,247,260.74</u>

Circulation of Funds

19. Wynstra deposited the proceeds from the sales of the investments into the operating accounts for the entity which sold the investment. That entity then paid interest to the investors. However, Wynstra routinely caused funds to be transferred amongst the operating accounts of the various entities as needed to meet expenses. For instance, between January 2008 and May 2009, Wynstra circulated \$25 million between the operating accounts of the Homestead entities. This was accomplished primarily by a web of overdraft protection set up between the operating accounts. The overdraft protection transfers covered expenses such as interest payments to investors as well as investor withdrawals. The use of overdraft protection amongst operating accounts had the effect of commingling investor funds from the different entities with revenues from operations. As a result, both new investor funds and revenues from other entities were used to make interest payments to investors. The success or

failure of a particular project or entity did not affect whether an investor in that project or entity received

1 interest or was able to withdraw funds. In addition, operating income for each entity was commingled to  
2 an extent that it would be difficult to determine whether a particular entity was profitable. Wynstra did  
3 not disclose to investors that the Homestead Companies would use their funds in this manner.

4 Investments Were Not Fully Secured

5 20. In January 2011, Wynstra testified to the Securities Division that the Homestead Companies  
6 did not currently have sufficient assets in liquidation to cover the outstanding obligations to investors. He  
7 testified that the Homestead Companies had not kept reserves to cover their interest obligations to investors,  
8 and that in order to complete outstanding projects, funds would need to come from sources outside the  
9 Homestead Companies. He further testified that it would take a significant amount of money to complete  
10 all of the Homestead Companies' real estate projects.

11 The Homestead Companies Continued to Offer Investments While Insolvent

12 21. The Homestead Companies periodically sent newsletters and reports to investors which  
13 provided updates on the Homestead Companies and solicited new investments. On June 27, 2008, Wynstra  
14 informed investors that the Homestead Group expected to be profitable for the year. He then offered gift  
15 certificates to investors who renewed their investments without taking withdrawals, and those who invested  
16 "new capital." On September 30, 2008, Wynstra sent a quarterly report to investors in which he  
17 represented, "We are a stable company with stable operations. The stability of all investments including  
18 yours are enhanced by the mutual stability between Homestead and each and all of you." Wynstra  
19 proceeded in the correspondence to offer "investments with interest rates up to 8.5% for an investment of  
20 \$100,000 for three years." The quarterly update did not provide financial statements or other basis for the  
21 statement that Homestead was a stable company. On October 31, 2008, Wynstra sent a letter to Homestead  
22 investors in which he reflected that investors in stocks and mutual funds had lost money recently. He



1 proclaimed that “Your investment with Homestead is different in this respect: we hold hard assets that back  
2 all of our obligations to each and every one of you.” At the time he made this statement, Wynstra knew or  
3 should have known it was misleading.

4 22. In reality, by the fall of 2008, the Homestead Companies were experiencing a downturn in the  
5 housing market coupled with increased requests for withdrawals from investors, including a \$500,000  
6 withdrawal request from a single investor. During this period, the Homestead Companies paid out or  
7 accrued approximately \$500,000 a month in interest to investors. Even with the extensive use of overdraft  
8 protection to transfer funds between operating accounts, accounting records maintained by the Homestead  
9 Companies show running negative balances in several operating accounts. Further, the Homestead  
10 Companies did not have sufficient assets at current value to cover all of its obligations to its investors.

11 23. On or about December 1, 2008, Homestead Northwest began offering the 10/10/10 Program  
12 (also known as the High Yield Triple 10 Program). The 10/10/10 Program offered 10% interest for 10 years  
13 with a minimum investment of \$10,000. A flyer announcing the program was sent out to existing investors,  
14 as well as suppliers, extended family, and friends of the Homestead Companies. The flyer informed readers  
15 that “Homestead has been around for more than 20 years and is going strong. With our diverse business  
16 model and well positioned properties to develop we will still be going strong 10 years from now.” The  
17 flyer further stated that Homestead was seeking to raise substantial capital in a short period of time and that  
18 new capital would be required. The flyer advised that “These notes pay a whopping 10% per annum simple  
19 interest” and that this was a “limited time offer.”

20 24. Between December 2008 and April 2009, the Homestead Companies raised at least \$311,000  
21 in new capital through the 10/10/10 Program. Investors received a promissory note and deed of trust, but no  
22

1 additional disclosure or financial information from the Homestead Companies. The Homestead Companies  
2 did not have a reasonable basis to believe that they would be able to able to pay 10% interest over 10 years.

3 25. During this time, the Homestead Companies also continued to renew existing notes as they  
4 came due, without providing additional disclosure to note holders about the financial condition of the  
5 Homestead Companies. During the period from September 2008 through April 2009, Wynstra signed  
6 approximately 330 note renewals. The majority of these notes were at 8% interest for one to three year  
7 terms. The Homestead Companies did not have a reasonable basis to believe that they would be able to pay  
8 the interest on these notes, either currently or when they came due.

9 Modification of Notes

10 26. Since April 2009, the Homestead Companies have defaulted on nearly all on their promissory  
11 notes by either not making interest payments or not paying the amount due when the note's term expired.

12 27. Wynstra and the Homestead Companies requested that investors, even those whose notes had  
13 not yet come to term, sign new notes in which they would accept lower interest rates and agree to lock up  
14 their funds through calendar year 2012. The terms read as follows:

15 The interest rate payable with respect to the note as to its diminishing principal  
16 balance during the period of extension shall be as follows: Zero (0%) percent per  
17 annum for the period from April 1 2009, through December 31, 2009; two (2.00%)  
18 percent per annum for calendar year 2010; three (3.00%) percent per annum for  
19 calendar year 2011; and four (4.00%) percent per annum for calendar year 2012.  
20 The parties agree that the interest shall be payable monthly on the first day of each  
21 month beginning February 1, 2010. Any payment made within fifteen (15) days of  
22 its due date shall be deemed timely made.

23 28. Under these terms, Wynstra and the Homestead Companies issued at least 480 new notes with  
24 a total face value of at least \$50,525,985. Homestead Northwest issued 175 new notes, Homestar issued  
25 134 new notes, Dev Co issued 110 new notes, and Great Links issued 61 new notes. The notes represented  
almost all the note programs offered by the Homestead Companies.

1 29. Wynstra signed the majority of the new notes in or around August and September 2009. At  
2 the time of the modifications, the Homestead Companies failed to provide financial statements or disclosure  
3 documents. The Homestead Companies had no reasonable basis to believe that each of its entities would be  
4 able to pay 2.00% per annum interest starting in February 2010, or would be able to pay off investors' notes  
5 on December 31, 2012. The Homestead Companies failed to make the promised interest payments in  
6 February 2010 and to date have not resumed interest payments except to select investors.

7 Failure to Disclose Payments to Certain Investors

8 30. Wynstra used the sense of community in the small town of Lynden in order to prolong his  
9 investment scheme. Wynstra encouraged investors to modify into new notes under the premise that  
10 everyone would benefit if he or she cooperated with the company rather than demand payment of their  
11 promissory notes. Meanwhile, Wynstra arranged for and made payments to certain investors while telling  
12 other investors there was no money for such payments. In most instances, the basis for the special payments  
13 was not a demonstrated need, but whether the particular investor was threatening legal action. Wynstra and  
14 the Homestead Companies failed to disclose to those signing new three-year notes for lower interest that  
15 select investors signed new notes memorializing partial withdrawals or other more favorable terms than  
16 those offered to the majority of investors. Moreover, Wynstra failed to disclose that these payments  
17 generally were not tied to the sale of the investors' collateral. Instead, these payments originated from  
18 general operating funds of the Homestead Companies.

19 Failure to Disclose Information about Securing Property

20 31. Wynstra, Lahman, and the Homestead Companies promoted their investments as high yield  
21 secured real estate investments in which investors' promissory notes were backed by a deed of trust. The  
22 Homestead Companies produced a one-page document entitled "High Yield Secured Real Estate

1 Investments” which provided limited information on the investments offered. Some but not all investors  
2 saw the document or received a copy of it before investing.

3 32. The “High Yield Secured Real Estate Investments” document had a section entitled “Security”  
4 under which it stated that “Loan to value ratio will not exceed 70% of completed value. Investor will be  
5 expected but not required to accept substituted collateral when collateral sells.” Many investors were sold  
6 the investments in a manner which lead them to believe their securing property was encumbered only to the  
7 extent of 70% of current value. While some investors understood the loan to value ratio to apply to a  
8 projected completed value for the real estate development, many investors did not understand this.  
9 Therefore, many investors thought their investment was secured for its principal value at all times, and that  
10 they could not lose money.

11 33. Wynstra testified to the Securities Division that even though the “High Yield Secured Real  
12 Estate Investments” document stated that the loan to value ratio was calculated as to completed value, he  
13 intended it to be as to current value at the time a deed of trust was created. However, in practice, the  
14 Homestead Companies did not limit investor deeds of trust to 70% of current value.

15 34. The Homestead Companies did not provide appraisals, assessed values, or other disclosure  
16 information about the real estate offered as security. The deeds of trust provided as security for individual  
17 promissory notes were often problematic. Deeds of trust often covered more than one parcel of property.  
18 These deeds of trust often overlapped with the deeds of trust of other investors, including investors who held  
19 earlier priority on the property. In addition, the securing properties were often subject to bank or seller liens  
20 from before the property was subdivided. This was generally not disclosed to investors, most of whom  
21 assumed they had a first position on their securing property, rather than a second or third position.

1           35.     As properties were developed and sold, the Homestead Companies typically asked investors to  
2 release a piece of property from their deed of trust. In these instances, the Homestead Companies would not  
3 pay the proceeds to investors, but would continue to roll over the investors' promissory notes. The  
4 Homestead Companies typically would grant substitute collateral, or would tell investors that their  
5 remaining collateral had sufficient value. It was generally not disclosed that the remaining collateral or the  
6 newly offered collateral might be subordinate to prior liens. Investors were not informed of potential  
7 complexity of enforcing overlapping obligations with differing priorities, nor were they told that agreeing to  
8 a reconveyance ultimately could limit their ability to recover their principal.

9           36.     Many investors did not understand when they agreed to release built-out collateral for resale  
10 by the Homestead Companies that the undeveloped collateral which remained or that they received in  
11 exchange might not have sufficient current value to secure their investment. The built-out value of a  
12 property was typically significantly higher than the current value of the undeveloped land. For instance, an  
13 empty lot in a subdivision might have a \$90,000 current value but a projected completed value of \$360,000;  
14 or a large parcel of undeveloped land might have a current value of \$4 million and a projected completed  
15 value of \$50 million. However, valuation information was not disclosed to investors.

16           37.     While new funds were coming into the Homestead Companies through the ongoing offering of  
17 investments, many prior investors rolled over their notes year after year. These investors would reconvey  
18 deeds of trust on built-out property at the Homestead Companies' request and received deeds of trust on  
19 undeveloped property in exchange. The Homestead Companies needed funds from other sources in order to  
20 develop these properties to their completed value. Thus, an investor's funds typically were not used to  
21 develop the property which secured his or her particular investment. It was not disclosed to investors that  
22 the Homestead Companies might not develop the land which secured their investment.

1           38.     The Homestead Companies’ practice of requesting reconveyances often left investors in a  
 2 worse position than they originally held. For instance, investors with deeds of trust on lots in the Crosby  
 3 Commons subdivision in Island County did not know that an underlying bank lien superseded their deeds of  
 4 trust. Nor was it disclosed to several investors that other investors had deeds of trust on the same property,  
 5 sometimes with higher priority. Therefore, when investors agreed to release lots from their deed of trust,  
 6 they were left with less ability to enforce their deeds of trust for full value. This pattern occurred multiple  
 7 times with deeds of trust in other subdivisions, and is not limited to the following representative example in  
 8 the Crosby Commons subdivision:

<u>Investor</u>	<u>Date of DOT</u>	<u>Amount</u>	<u>Secured by</u>	<u>Reconveyed</u>	<u>Remaining</u>
Investor A	6/19/06	\$107,290.91	Lot 27, 62	Lot 27	Lot 62
Investor B	8/16/06	\$144,799.61	Lot 28, 57, 62	Lot 28, 57	Lot 62
Investor C	6/19/06	\$143,242.92	Lot 16, 28	Lot 28	Lot 16
Investor D	12/19/08	\$103,551.44	Lot 16	n/a	Lot 16

14

15                   Failure to Disclose Information about Investment Group Tenancies in Common

16           39.     Beginning in the late 1990s, the Homestead Companies began offering an investment  
 17 structured as an “investment group tenancy in common.” James Wynstra as the officer of the various  
 18 Homestead Companies created the investment groups. Investors received an individual promissory note  
 19 from one of the Homestead entities. Wynstra then assigned the investors to an investment group and had  
 20 them sign a tenancy in common agreement. Rather than receiving individual deeds of trust to secure their  
 21 investments, investors received a deed of trust in the name of the “investment group tenancy in common” on  
 22

1 an undeveloped parcel of land. Wynstra signed all documents on behalf of the investment group, handled  
2 all funds, and oversaw the development (or lack of development) of the securing property.

3 40. Wynstra maintained a roster for each investment group which listed the names of the investors  
4 and the amounts they contributed. Investors were generally given the investor list current as of the time of  
5 their investment. However, as later investors were added or removed, investors generally were not provided  
6 updates as to who remained in the investment group, nor their relative interests. The investor list was not  
7 recorded with the deed of trust.

8 41. Wynstra did not disclose to investors how other investors were added or removed from the  
9 tenancy in common. He did not disclose that adding members to the investment group would dilute an  
10 investor's interest in the investment group deed of trust and therefore reduce the likelihood that an investor  
11 could recover his or her full investment.

12 42. Wynstra did not disclose to investors how they could enforce the tenancy in common deed of  
13 trust, nor did he explain what rights they had under the tenancy in common agreement.

14 43. The investment group tenancy in common agreement typically stated how the funds for a  
15 specific group were to be used, and provided a maximum capitalization. For instance, the Birch Bay  
16 Waterfront Investment Group's tenancy in common agreement stated that the purpose of the group was "to  
17 supply capital to be used by Homestead related to further development at Birch Bay Waterfront Subdivision  
18 located in Birch Bay, Washington." Generally investors understood that their funds would be used to  
19 develop the securing property as stated in the tenancy in common agreement. However, Wynstra testified to  
20 the Securities Division that he did not view such language in the tenancy in common agreements as  
21 requiring that the investment group funds be used for the purpose stated. Wynstra did not provide any  
22 additional disclosure to investors regarding how their funds would be used.

1 44. Wynstra did not disclose that for certain investment groups, he oversold the face value of the  
2 deed of trust which purported to secure the investments of all the investment group members. Investors  
3 would have reasonably expected to hold a certain minimum percentage interest in the group at the time they  
4 invested based on the amount they invested and the maximum capitalization they were told an investment  
5 group would have. They also expected their investment to be covered in full by the deed of trust.

6 45. For certain investment groups, Wynstra would request that the group reconvey lots from the  
7 investment group deed of trust to the Homestead Companies. Wynstra on occasion made representations  
8 that even if a lot were reconveyed, there would be sufficient equity in the remaining lots to cover the  
9 investment group's investments. Wynstra failed to provide any basis for these representations.

10 46. Wynstra and the Homestead Companies did not disclose information about the property  
11 underlying the investment group deed of trust, including that banks or others might have superior liens to  
12 the investment group's deed of trust; that property might not have sufficient current value to cover the  
13 principal of all investors secured by the deed of trust; and that the Homestead Companies might choose not  
14 to develop the property to increase its value.

15 47. Wynstra failed to tell investors that certain deeds of trust granted to investment groups might  
16 be invalid. For example, Wynstra caused the Homestar entity to grant a \$7 million deed of trust to the Sea  
17 Links Investment Group. However, Wynstra did not disclose that Homestar did not own the land on which  
18 it purported to grant the deed of trust. Wynstra testified to the Securities Division that the land was owned  
19 instead by Pro Bay LLC. Pro Bay is a Homestead entity in which investors are the holders of the  
20 company's LLC units. At the time Wynstra caused Homestar to place a deed of trust on property it did not  
21 own, he had reason to know that Homestar did not own the property. Further, he had previously caused Pro  
22



1 Bay LLC to grant a lien to Frontier Bank on the same property. Wynstra failed to disclose this information  
2 to investors.

3 Failure to Disclose Information about Equity Investments

4 48. Beginning in approximately 2006, Pro Bay LLC offered an investment which it described as  
5 “equity investments with guaranteed preferred yield.” These investments were advertised in a letter and  
6 flyer sent to existing Homestead Companies’ investors. The purpose of the offering was to raise capital on a  
7 subscription basis to acquire property. Though it was an equity investment in LLC units, Pro Bay  
8 guaranteed to repurchase the units later with a 10% to 11% per annum yield.

9 49. Investors in Pro Bay were required to invest a minimum of \$100,000. They signed a two-page  
10 operating agreement for the LLC. They also signed a “Buy/Sell Agreement” at the time of the investment in  
11 which Pro Bay agreed to repurchase the interest. Investors were not provided any additional disclosure  
12 documents or financial statements, nor provided any information on the likelihood that Pro Bay would be  
13 able to fulfill its guarantee that their investments would be bought back with a certain yield.

14 Misrepresentations and Omissions

15 50. James Wynstra; Rita Lahman; Homestead Northwest, Inc.; Homestead NW Development  
16 Company; Homestar Northwest LLC; Great Links Resort LLC; Pro Bay LLC; and Sumas Mountain  
17 Village, Inc. failed to provide material information regarding the investments offered by the Homestead  
18 Companies, including but not limited to financial statements; use of proceeds; disclosure regarding the  
19 value of property offered as security, prior liens on such property, or any other factors which might  
20 impact the ability of investors to enforce deeds of trust to recover their investments; the lack of corporate  
21 formalities between the Homestead entities; the bonus paid to Rita Lahman based on the amounts  
22

1 invested; the general risk factors related to real estate investment and development; and the specific risk  
2 factors of each development project.

3 Registration Status

4 51. Homestead Northwest, Inc.; Homestead NW Development Company; Homestar Northwest  
5 LLC; Great Links Resort LLC; Pro Bay LLC; and Sumas Mountain Village, Inc. are not currently  
6 registered to sell their securities in the State of Washington and have not previously been so registered.

7 52. James Wynstra is not currently registered as a securities salesperson or broker-dealer in the  
8 State of Washington and has not previously been so registered.

9 53. Rita Lahman is not currently registered as a securities salesperson or broker-dealer in the  
10 State of Washington and has not previously been so registered.

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

12 **CONCLUSIONS OF LAW**

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

15 2. James Wynstra; Rita Lahman; Homestead Northwest, Inc.; Homestead NW Development  
16 Company; Homestar Northwest LLC; Great Links Resort LLC; Pro Bay LLC; and Sumas Mountain  
17 Village, Inc. violated RCW 21.20.140, the securities registration provision of the Securities Act, because  
18 James Wynstra; Rita Lahman; Homestead Northwest, Inc.; Homestead NW Development Company;  
19 Homestar Northwest LLC; Great Links Resort LLC; Pro Bay LLC; and Sumas Mountain Village, Inc.  
20 offered and/or sold securities for which there was no registration on file with the Securities  
21 Administrator.

1 3. James Wynstra violated RCW 21.20.040, the section of the Securities Act requiring  
2 registration of securities salespersons, because James Wynstra offered and/or sold securities while not  
3 registered as securities salesperson in the State of Washington.

4 4. Rita Lahman violated RCW 21.20.040, the section of the Securities Act requiring  
5 registration of securities salespersons, because Rita Lahman offered and/or sold securities while not  
6 registered as securities salesperson in the State of Washington.

7 5. The offer or sale of securities was made in violation of RCW 21.20.010, the anti-fraud  
8 provision of the Securities Act, because Respondents James Wynstra; Rita Lahman; Homestead  
9 Northwest, Inc.; Homestead NW Development Company; Homestar Northwest LLC; Great Links Resort  
10 LLC; Pro Bay LLC; and Sumas Mountain Village, Inc. in connection with the offer or sale of said  
11 securities directly or indirectly made untrue statements of material fact or omitted to state material facts  
12 necessary in order to make the statements made, in light of the circumstances under which they were  
13 made, not misleading

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 and Conclusions of  
16 Law, the Securities Administrator intend to order that James Wynstra; Rita Lahman; Homestead  
17 Northwest, Inc.; Homestead NW Development Company; Homestar Northwest LLC; Great Links Resort  
18 LLC; Pro Bay LLC; and Sumas Mountain Village, Inc., and their agents and employees, each shall cease  
19 and desist from violations of RCW 21.20.140, RCW 21.20.040, and RCW 21.20.010.

20 **NOTICE OF INTENT TO IMPOSE FINES**

21 Pursuant to RCW 21.20.395 and based upon the above Tentative Findings of Fact and Conclusions of  
22 Law, the Securities Administrator intends to order that:

- 1 a. Respondent James Wynstra shall be liable for and pay a fine of one hundred thousand  
2 dollars (\$100,000); and
- 3 b. Respondent Rita Lahman shall be liable for and pay a fine of ten thousand dollars  
4 (\$10,000).

5 **NOTICE OF INTENT TO RECOVER COSTS**

6 Pursuant to RCW 21.20.390(5), and based upon the Tentative Findings of Fact and Conclusions of Law,  
7 the Securities Administrator intends to order that Respondent James Wynstra shall be liable for and pay  
8 the Securities Division not less than \$10,000 in costs, fees, and other expenses incurred in the conduct of  
9 the administrative investigation and hearing of this matter.

10 **AUTHORITY AND PROCEDURE**

11 This Statement of Charges is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395  
12 and is subject to the provisions of Chapter 34.05 RCW. The Respondents may each make a written  
13 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND  
14 OPPORTUNITY FOR HEARING accompanying this Statement of Charges. If a Respondent does not  
15 request a hearing, the Securities Administrator intends to adopt the foregoing Tentative Findings of Fact  
16 and Conclusions of Law as final, and enter a permanent cease and desist order against that Respondent  
17 and imposing the fines and/or costs sought.

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DATED this 29th day of March, 2011.



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WILLIAM M. BEATTY  
Securities Administrator

Approved by:



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Suzanne Sarason  
Chief of Enforcement

Presented by:



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Jill M. Vallely  
Staff Attorney