

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING) Order No.: S-09-231-14-CO01
5 whether there has been a violation of the)
6 Securities Act of Washington by:)
7)
8 SCI Funding Group, LLC; Scott Campbell; John) CONSENT ORDER AS TO JOHN TATE
9 Tate,)
10)
11)
12 Respondents.)

13 **INTRODUCTION**

14 On February 28, 2014, the Securities Administrator of the state of Washington issued Statement of Charges
15 and Notice of Intent to Enter Order to Cease and Desist, to Impose Fines and to Charge Costs S-09-231-14-SC01
16 (“Statement of Charges”) against Respondents, SCI Funding Group, LLC, Scott Campbell, and John Tate.

17 Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department of
18 Financial Institutions (“Securities Division”) and Respondent, John Tate, do hereby enter into this CONSENT
19 ORDER in settlement of the matters alleged herein. Respondent, John Tate, neither admits nor denies the Findings of
20 Fact and Conclusions of Law as stated below.

21 **FINDINGS OF FACT**
22 Respondents

23 1. SCI Funding Group, LLC (“SCIFG”) is an inactive Washington limited liability company with its former
24 principal place of business in Bellevue, Washington. During the relevant time period, SCIFG was in the business of
25 financing and servicing construction loans.

26 2. Scott Campbell (“Campbell”) is a Washington resident and the sole member of SCIFG.

27 3. John Tate (“Tate”) is a Washington resident and was an independent contractor working on behalf of SCIFG.
28 Respondents falsely identified Tate as a member of SCIFG in documents provided to investors and loan purchasers.

29 Other Persons

30 4. Roger O’Connell (“O’Connell”) controls multiple entities that purchased interests in loans from SCIFG.

31 5. Bennett Williams (“Williams”) controls multiple entities that purchased interests in loans from SCIFG.

Nature of the Offering

6. Between 2004 and 2008, Respondents offered and sold to at least 6 Washington investors over \$1 million of investments linked to the profits from loans financed and serviced by SCIFG.

Background of SCIFG’s Construction Loan Business

7. From 1997 to 2004, Tate worked as a vice president for Partners Mortgage Corporation (“PMC”). While working for PMC, Tate became acquainted with mortgage brokers, as well as with individuals who were in the business of purchasing loans – namely, O’Connell and Williams. PMC was the subject of regulatory and legal actions, including an enforcement action entered by the Securities Administrator for violations of the Securities Act of Washington (Case No. S-04-245). PMC also filed for bankruptcy in 2003 and its investors suffered significant losses.

8. In 2004, Campbell hired Tate as an independent contractor to turn SCIFG into a business that originated, sold, and serviced construction loans. Campbell and Tate agreed to equally split the profits from loan servicing fees and interest paid to SCIFG.

9. Essentially, SCIFG’s business activities involved finding borrowers, originating borrowers’ loans, and selling the loans to entities controlled by O’Connell and Williams. Because O’Connell and Williams were the loans’ primary funding source, SCIFG originated loans only after O’Connell and Williams approved the borrower, approved the loan terms, and agreed to purchase a majority interest in the loan from SCIFG.

10. Upon acceptance of the loan terms, a borrower typically assigned SCIFG the entire interest in a first position deed of trust. At that time, SCIFG typically completed the sale of the loan and assigned a percentage of its deed of trust position to each of various entities controlled by O’Connell and Williams. Often, SCIFG retained no interest in the deed of trust. Still, SCIFG retained an interest in the loan fees, points paid at loan origination, and a portion of the borrower’s interest payments.

Offer and Sale of Investments

11. In some instances, O’Connell and Williams funded only a portion of a loan while SCIFG funded the remainder. In such cases, borrowers still assigned SCIFG the entire interest in a first position deed of trust. However, SCIFG then reassigned a portion of the deed of trust to itself in addition to the O’Connell and Williams entities. It was

1 in these cases that Respondents sought funds from investors.

2 12. To find investors, Tate and Campbell called on their friends and family. At least 6 Washingtonians
3 collectively invested over \$1 million with SCIFG.

4 13. To solicit investment in SCIFG, Respondents offered prospective investors a 10.25% return on investments
5 linked to the construction loans that SCIFG financed and serviced. When soliciting investors, Respondents created
6 and distributed a document that briefly identified the terms of the investment, the property securing the construction
7 loan, and the terms of the loan agreement. Respondents also told investors that they would share in profits from the
8 loans. SCIFG promised to pay investors as borrowers made loan payments. Typically, such payments were scheduled
9 monthly, with a large balloon payment at the end of a one- or two-year financing period. To evidence the investment,
10 Respondents initially provided an investor with a "Loan Pledge and Servicing Agreement." However, Respondents
11 also periodically rolled over an investor's proceeds into another investment without giving the investor additional
12 documentation.

13 14. In addition to pledging a portion of loan profits, Respondents falsely told at least four investors that their
14 investments would be secured by deeds of trust or real property. Tate also represented to at least two investors that the
15 investment had very little risk or was safe. Tate further represented to at least one investor that, in the worst case, the
16 investor would be second in line to collect a return on his investment. Contrary to Respondents' representations, these
17 investors' funds remained unsecured.

18 15. In 2009, SCIFG became inactive. By that time, many of SCIFG's borrowers stopped making loan payments.
19 At this stage, SCIFG typically reconveyed its deed of trust position to the borrower or reassigned its deed of trust
20 position to another O'Connell and Williams entity. This reassignment facilitated a trustee's sale of the borrower's
21 property. Despite the trustee's sales and reconveyances, SCIFG failed to repay at least 6 investors.

22 Misrepresentations and Omissions

23 16. Respondents failed to provide material information to investors including information concerning SCIFG's
24 financial condition, the nature and value of SCIFG's debt and assets, the registration status of SCIFG's securities and
25 salespersons, and risks associated with the investment.

17. Respondents failed to disclose to prospective investors John Tate's former affiliation with Partners Mortgage Corporation and the regulatory and legal actions taken against Partners Mortgage Corporation.

18. Respondents misrepresented the status of John Tate as a member of SCIFG.

19. Respondents misled some investors by telling them that their investments would be secured by deeds of trust or real property, as described in paragraph 14 above.

20. John Tate's worst case scenario and risk representations, as described in paragraph 14 above, were misleading. Tate failed to provide a reasonable basis for the representations.

Registration Status

21. Respondent, SCI Funding Group, LLC, is not currently registered to sell its securities in the state of Washington and has not previously been so registered. There is no notification of exemption on file with the state of Washington.

22. Respondent, Scott Campbell, is not registered as a securities salesperson or broker-dealer in the state of Washington and has not previously been so registered.

23. Respondent, John Tate, is not registered as a securities salesperson or broker-dealer in the state of Washington and has not previously been so registered.

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

CONCLUSIONS OF LAW

1. The offer or sale of investments linked to loan financing and servicing profits as described above constitute the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).

2. John Tate violated RCW 21.20.040 by offering and/or selling said securities while not registered as a securities salesperson or broker-dealer in the state of Washington.

3. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no registration for such an offer and/or sale is on file with the Securities Administrator, state of Washington.

4. The offer and/or sale of said securities were in violation of RCW 21.20.010 because John Tate made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the

light of the circumstances under which they were made, not misleading.

CONSENT ORDER

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

IT IS AGREED AND ORDERED that Respondent, John Tate, his agents and employees each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Tate, his agents and employees each shall cease and desist from violating RCW 21.20.040, the securities salesperson and broker-dealer section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Tate, his agents and employees each shall cease and desist from violating RCW 21.20.140, the securities registration section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Tate, shall be liable for and shall pay a fine of \$3,500 and investigative costs of \$1,000 on or before the entry of this Consent Order.

IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

IT IS FURTHER AGREED that Respondent, John Tate, entered into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondent, John Tate, waives his right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

Signed this 14th day of April 2014.

Signed by:

/s/ _____
John Tate, Individually

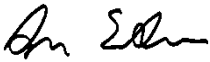
SIGNED and ENTERED this 25th day of April 2014.



William M. Beatty
Securities Administrator

Approved by:

Presented by:



Suzanne Sarason
Chief of Enforcement

Drew Stillman
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor