

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

4 IN THE MATTER OF DETERMINING  
5 Whether there has been a violation  
6 of the Securities Act of Washington by:

Order Number S-10-025-10-CO01

CONSENT ORDER

Olympic Coast Investment, Inc.,

Respondent

7  
8 **INTRODUCTION**

9 Pursuant to the Securities Act of Washington, chapter 21.20 RCW, the Securities Division of the  
10 Department of Financial Institutions (“Securities Division”) and Respondent, Olympic Coast Investment,  
11 Inc., do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein.

12 Respondent neither admits nor denies the Findings of Fact and Conclusions of Law stated below.

13 **FINDINGS OF FACT**

14 Respondent

15 1. Olympic Coast Investment, Inc. (“OCI”) is a Washington corporation that was incorporated on  
16 March 2, 1995. OCI is in the business of offering and selling mortgage paper securities, as defined in  
17 WAC 460-33A-015. Pursuant to chapter 460-33A of the Washington Administrative Code, OCI is  
18 registered with the Washington Securities Division as a mortgage paper securities broker-dealer. OCI has  
19 been registered as a mortgage paper securities broker-dealer since 1995. OCI has its principal place of  
20 business in Seattle, Washington.

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23 CONSENT ORDER

1 OCI's Business Activities

2 2. OCI originates and acquires loans to borrowers and receives loan fees that are a percentage of the  
3 total loan amount. The loans are evidenced by promissory notes from the borrower and are secured by  
4 real property deeds of trust. OCI then offers and sells participation interests in the promissory notes and  
5 deeds of trust to investors. The interest rate that is paid to the investors is less than the interest rate that is  
6 paid by the borrower. OCI keeps the interest rate spread.

7 3. After the investments have been sold, OCI provides additional services to the investors. OCI  
8 services the loans by collecting loan payments from the borrower and remitting payments to the investors.  
9 OCI receives a loan servicing fee that is a small percentage of the payments to investors. If a borrower  
10 defaults on a loan, OCI pursues collection of the loan and, if necessary, initiates a foreclosure proceeding.

11 OCI's Disclosure Obligation

12 4. When offering and selling a promissory note and deed of trust investment, OCI and its  
13 representatives must give each investor a General Offering Circular that has general information about  
14 mortgage paper securities investments and about OCI. OCI and its representatives must also give each  
15 investor a Specific Offering Circular that describes the terms and discloses any special risks of each  
16 offering. The Specific Offering Circular and General Offering Circular, together, must disclose all  
17 material facts about the investment.

18 The Villas at Altura, LLC Loan

19 5. During 2007, OCI originated a \$3,000,000 loan to a borrower named The Villas at Altura, LLC.  
20 The borrower was a Utah real estate developer and real estate investor. The Villas at Altura, LLC owned  
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1 20 vacant residential lots in the Altura Community, a high-end residential development located in  
2 Woodfin, North Carolina. The lots were encumbered by a \$3,000,000 deed of trust to secure the loan.

3 The Villas at Altura, LLC Securities Offering

4 6. During 2007, Respondent offered and sold \$3,000,000 worth of promissory note and deed of trust  
5 investments in The Villas at Altura, LLC mortgage paper securities offering, OCI Loan #27074. The  
6 investments were sold to more than 70 investors. According to the disclosures in the Specific Offering  
7 Circular, OCI received a loan origination fee that was 8% of the loan amount and was payable from the  
8 loan proceeds and a loan servicing fee of 0.5% from the monthly payments to the investors.

9 Special Risks of the Offering

10 7. In the “Special Risks” section of the Specific Offering Circular, Respondent represented that the  
11 lots securing the loan were 60% complete. The Specific Offering Circular also stated that “The roads are  
12 cut in and the utilities, water and sewer are currently being stubbed to the lots. OCI has held back  
13 \$400,000 to assure the completion of the infrastructure.”

14 Misrepresentations and Omissions

15 8. When offering and selling The Villas at Altura, LLC promissory note and deed of trust  
16 investments, Respondent failed to disclose to investors that OCI’s \$400,000 holdback would not ensure  
17 that the infrastructure would be completed. Respondent failed to disclose that the developer of the  
18 subdivision, which was a different company from The Villas at Altura, LLC, was responsible for ensuring  
19 that all utilities would be installed for the entire subdivision. Respondent also failed to disclose that in  
20 order to complete the sewer service, the developer would have to pay the Metropolitan Sewerage District  
21 approximately \$360,000 to install a sewer lift station. Although the amount due has subsequently been  
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1 reduced to approximately \$300,000, the payment for the lift station has never been made and, to date,  
2 there is still no operating sewer system for the Altura lots. There are also additional utilities services that  
3 have not been installed.

#### 4 Development Holdback

5 9. When offering and selling The Villas at Altura, LLC promissory note and deed of trust  
6 investments, Respondent represented to investors that there would be a \$400,000 holdback to cover the  
7 cost of completing the infrastructure for the lots. However, after the borrower defaulted on the loan, OCI  
8 began making interest payments to investors using funds from the \$400,000 development holdback. Under  
9 WAC 460-33A-065, any payments received on the note shall not be used for any transaction other than  
10 the transaction for which the funds are received. Also, in accordance with WAC 460-33A-065, OCI's  
11 Participation Investment Agreement states that if the source of any loan payment is someone other than  
12 the borrower, OCI shall promptly inform investors about the source of the payment. OCI did not promptly  
13 send a written notice to investors to advise them that the development holdback funds were being used to  
14 make interest payments to investors. Following a routine examination of OCI by the Securities Division,  
15 OCI sent a letter dated October 27, 2009 to notify investors that OCI was using monies from the \$400,000  
16 development holdback to make monthly interest payments for the investment. According to the letter, the  
17 development holdback had a remaining balance of \$142,035.25.

#### 18 Loan Default

19 10. Pursuant to WAC 460-33A-065, OCI is obligated under its Participation Investment Agreement  
20 to promptly notify investors about any default on a note that is subject to a loan servicing agreement. OCI  
21 failed to promptly notify investors that the borrower, The Villas at Altura, LLC, had defaulted on its  
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1 promissory note. The note came due on December 1, 2008 and was not repaid. OCI did not send a notice  
2 of default to investors until October 27, 2009. In the October 27, 2009 letter, OCI stated that it had  
3 decided to commence the foreclosure action on the loan.

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

## 5 **CONCLUSIONS OF LAW**

### 6 I.

7 The offer or sale of the investments described above constitutes the offer or sale of a security as  
8 defined in RCW 21.20.005(10) and (12), whether in the form of a note, an investment contract, or an  
9 evidence of indebtedness.

### 10 II.

11 As a condition of registration, in accordance with WAC 460-33A-065, and as provided in its loan  
12 servicing agreement, Respondent must promptly notify investors of any default on a promissory note. As  
13 set forth in the Tentative Findings of Fact, Respondent failed to give prompt notification to investors that  
14 the promissory note from The Villas at Altura, LLC was in default.

### 15 III.

16 As a condition of registration, in accordance with WAC 460-33A-065, and as provided in its loan  
17 servicing agreement, Respondent must not use payments for any transaction other than the transaction for  
18 which the funds were received. As set forth in the Tentative Findings of Fact, Respondent failed to  
19 promptly notify investors that the \$400,000 development holdback was being used to make investor  
20 interest payments, rather than being used as a development holdback to assure the completion of the  
21 infrastructure for the lots securing the investment.

1 IV.

2 As set forth in the Tentative Findings of Fact, Respondent violated RCW 21.20.010 by making an  
3 untrue statement of a material fact or omitting to state a material fact necessary in order to make the  
4 statements made, in the light of the circumstances under which they were made, not misleading.

5 **CONSENT ORDER**

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

7 IT IS AGREED AND ORDERED that Respondent, Olympic Coast Investment, Inc., and its agents  
8 and employees, each shall cease and desist from offering or selling securities in violation of RCW  
9 21.20.010.

10 IT IS FURTHER AGREED AND ORDERED that Respondent, Olympic Coast Investment, Inc.,  
11 shall pay a fine of \$10,000 prior to the entry of this Order.

12 IT IS FURTHER AGREED AND ORDERED that Respondent, Olympic Coast Investment, Inc.,  
13 shall pay investigative costs of \$3,000 prior to the entry of this Order.

14 IT IS FURTHER AGREED that in order to promote better communications with investors, OCI will  
15 enter into a contract with Informia, Inc. Through the use of Informia’s product, InvestorUpdate, OCI  
16 investors will be able to access status reports and updated loan information via a secured login.

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

18 IT IS FURTHER AGREED that in consideration of the foregoing Respondent, Olympic Coast  
19 Investment, Inc., hereby waives its rights to a hearing in this matter and to judicial review of this Order.

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

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SIGNED this 21 day of July, 2010

Signed by:

Olympic Coast Investment, Inc.

By /s/ John R. Hoss  
John R. Hoss, President

Approved by:

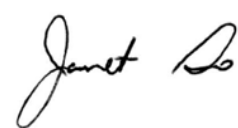
Scott B. Osborne, WSBA #6246  
Attorney for Respondent

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SIGNED and ENTERED this 23rd day of July, 2010



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WILLIAM M. BEATTY  
Securities Administrator

Presented by:



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Janet So  
Enforcement Attorney