

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 of the
6 Securities Act of Washington by:

7 Chesterfield Mortgage Investors, Inc. and
8 Charles M. Chesterfield,

Respondents

Order Number S-10-293-10-CO01

CONSENT ORDER

9 INTRODUCTION

10 Pursuant to the Securities Act of Washington, chapter 21.20 RCW, the Securities
11 Division of the Department of Financial Institutions (“Securities Division”) and Respondents
12 Chesterfield Mortgage Investors, Inc. and Charles M. Chesterfield do hereby enter into this
13 Consent Order in settlement of the matters alleged herein. Respondents Chesterfield Mortgage
14 Investors, Inc. and Charles M. Chesterfield neither admit nor deny the Findings of Fact and
15 Conclusions of Law stated below.
16

17 FINDINGS OF FACT

18 Respondents

19
20 1. Chesterfield Mortgage Investors, Inc. (“CMI”) is a Washington corporation,
21 with its principal place of business located at 1420 Fifth Avenue, Suite 1850 in Seattle,
22 Washington. CMI has been in the business of making “hard money” loans to high-risk
23 borrowers. The loans are evidenced by a promissory note payable from a borrower to CMI
24 and secured by a deed of trust. CMI sells participation interests in these promissory notes and
25 deeds of trust to investors. CMI assigns undivided fractional interests in the deed of trust to
individual investors based upon the amount that they invest. CMI also provides loan

1 management and collection services and charges loan servicing fees to investors. In addition
2 to servicing its own loans, CMI also services loans that were originated by two mortgage
3 paper securities broker-dealers that are now out of business.

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5 2. Charles M. Chesterfield (“Chesterfield”) is the CEO, President and sole
6 shareholder of CMI, and a signatory on CMI’s bank accounts.

7 Registration Status

8 3. CMI had been registered as a “mortgage broker-dealer” with the Securities
9 Division under RCW 21.20.210 and WAC chapter 460-33A to sell “mortgage paper
10 securities” as defined in WAC 460-33A-015(4). CMI’s mortgage paper securities registration
11 (permit number 70011205) was scheduled to expire on December 1, 2010. CMI had been
12 registered with the Securities Division as a securities broker-dealer under RCW 21.20.040.
13 CMI’s securities broker-dealer registration (permit number 10003973) was scheduled to
14 expire on December 1, 2010.

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16 4. Chesterfield had been registered with the Securities Division under RCW
17 21.20.040 as a securities salesperson for CMI. Chesterfield’s securities salesperson
18 registration (permit number 20004056) was scheduled to expire on December 1, 2010.

19 Offering of Investments

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21 5. During 2008 and 2009, CMI offered and sold investments in the form of
22 participation interests in various loans. CMI provided disclosure documents to investors,
23 including a General Offering Circular that contained general information about CMI and a
24 Specific Offering Circular that was tailored for each loan. In these materials, CMI
25 represented to investors that their investment would be secured by a deeds of trust on a
specific property or properties located in Washington.

1 CMI borrowers; to make payments for the benefit of investors in other loans; and to pay legal
2 and property expenses associated with foreclosed property or Real Estate Owned (REO)
3 property.
4

5 9. In addition, after borrowers repaid their loans, CMI reconveyed the deed of
6 trust that secured the investors' participating interests, without authorization from the
7 investors. These actions left CMI investors with no real property security for their
8 investments.

9 10. In spite of the fact that the loans had been repaid, CMI continued to issue false
10 and misleading monthly account statements to its investors. These account statements falsely
11 indicated that some paid-off loans were still outstanding, and listed a projected loan maturity
12 date that was no longer valid. CMI continued to make interest-only payments to investors,
13 while not disclosing to the investors in the paid off loans that the loans had already been
14 repaid by the borrower. When offering and selling new loans, CMI also failed to disclose to
15 investors that CMI had misused loan payoffs from other loans.
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17

18 Misuse of Funds for Specific Participation Loan Investments

19 Loan #7036

20 11. CMI Loan #7036 was a \$540,000 loan that CMI sold participation interests in
21 to approximately ten investors pursuant to a Specific Offering Circular dated August 21,
22 2008. The participation investments were secured by a first position deed of trust against a
23 property in Vashon, Washington, and a first position deed of trust against a property in
24 Seattle, Washington. In approximately January 2010, the loan was paid off early, and CMI
25 reconveyed the deed of trust to the borrower. Nonetheless, CMI continued to send monthly

1 investor account statements that failed to disclose that the loan had been repaid. CMI repaid
2 some, but not all, of the investors in the loan.

3 Loan #7037

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5 12. CMI Loan #7037 was a \$500,000 loan that CMI sold participation interests in
6 to approximately 17 investors pursuant to a Specific Offering Circular dated August 21, 2008.
7 The security for the loan participation investments was a \$500,000 first position deed of trust
8 against property in Langley, Washington. In May 2010, this loan was paid off. Nevertheless,
9 in June 2010, CMI sent monthly account statements to at least four investors that falsely
10 indicated that the loan was "In foreclosure. Borrower has property listed for sale."
11

12 Loan #7049

13 13. CMI Loan #7049 was a \$175,000 loan that CMI sold participation interests in
14 to approximately three investors pursuant to a Specific Offering Circular dated December 16,
15 2008. The security for the participation investments was a first position deed of trust against
16 property located in Tahuya, Washington. In approximately January 2010, the loan was
17 repaid, and CMI reconveyed the deed of trust to the borrower in March 2010. Through at
18 least June 2010, CMI continued to send monthly account statements that failed to disclose the
19 loan had been repaid, and make interest-only payments to investors.
20

21 Loan #7057

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23 14. CMI Loan #7057 was a \$130,000 loan that CMI sold participation interests in
24 to approximately nine investors pursuant to a Specific Offering Circular dated May 21, 2009.
25 According to the Specific Offering Circular, the security for the participation investments was
a first position deed of trust against property in Poulsbo, Washington. In approximately
February 2010, the loan was paid off, and CMI reconveyed the deed of trust to the borrower.

1 Through at least June 2010, CMI continued to send monthly investor account statements that
2 failed to disclose the loan had been repaid, and make interest-only payments to investors.

3 Loan #7075

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5 15. CMI Loan #7075 was a \$635,000 loan that CMI sold participation interests in
6 to approximately 26 investors pursuant to a Specific Offering Circular dated October 30,
7 2009. The security for the loan participation investments was a first position deed of trust
8 against property in Bothell, Washington. In June 2010, after the loan was paid off and CMI
9 reconveyed the deed of trust to the borrower, CMI sent monthly investor account statements
10 that failed to disclose the loan had been repaid and continued to make interest-only payments
11 to investors.
12

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

14 **CONCLUSIONS OF LAW**

15 1. As set forth above in the Findings of Fact, the offer or sale of the notes,
16 investments in notes and deeds of trust, and mortgage paper securities described above
17 constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12),
18 whether in the form of a note, an investment contract, an evidence of indebtedness or
19 mortgage paper securities.
20

21 2. As set forth above in the Findings of Fact, Respondents Chesterfield Mortgage
22 Investors, Inc. and Charles M. Chesterfield have each made untrue statements of material
23 fact or omitted to state material facts necessary in order to make the statements made, in the
24 light of the circumstances under which they are made, not misleading, in violation of RCW
25 21.20.010(2), the anti-fraud section of the Securities Act of Washington. As set forth above
in the Findings of Fact, Chesterfield Mortgage Investors, Inc. and Charles M. Chesterfield

1 have also each engaged in an act, practice, or course of business which operates or would
2 operate as a fraud or deceit upon investors, in violation of RCW 21.20.010(3). Such
3 conduct constitutes grounds for an order suspending and denying or revoking securities
4 broker-dealer and securities salesperson registration under RCW 21.20.110(1)(b).
5

6 3. As set forth above in the Findings of Fact, Chesterfield Mortgage Investors,
7 Inc. and Charles M. Chesterfield have each commingled investor funds with the assets of
8 CMI, which violates the rule set forth in WAC 460-33A-065 and is a basis for suspending
9 or revoking a securities broker-dealer registration and a securities salesperson registration
10 pursuant to RCW 21.20.110(1)(b).
11

12 4. As set forth above in the Findings of Fact, Chesterfield Mortgage Investors,
13 Inc. and Charles M. Chesterfield have each failed to keep separately all proceeds of sales
14 involving real property securing a loan funded by sales of mortgage paper, which violates
15 the rule set forth in WAC 460-33A-065 and is a basis for suspending or revoking a
16 securities broker-dealer registration and a securities salesperson registration pursuant to
17 RCW 21.20.110(1)(b).
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19 5. As set forth above in the Findings of Fact, Chesterfield Mortgage Investors,
20 Inc. and Charles M. Chesterfield have each committed dishonest or unethical practices in
21 the securities business, which violates the rules set forth in WAC 460-21B-060 and WAC
22 460-22B-090 and is a basis for suspending or revoking a securities broker-dealer
23 registration and a securities salesperson registration pursuant to RCW 21.20.110(1)(g).
24

25 **CONSENT ORDER**

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

1 IT IS AGREED AND ORDERED that Respondents Chesterfield Mortgage Investors,
2 Inc. and Charles M. Chesterfield, and their agents and employees, shall each cease and desist
3 from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.
4

5 IT IS FURTHER AGREED AND ORDERED that Respondent Chesterfield Mortgage
6 Investors, Inc.'s securities broker-dealer registration is permanently revoked on the date of entry
7 of this Consent Order.

8 IT IS FURTHER AGREED AND ORDERED that Respondent Chesterfield Mortgage
9 Investors, Inc. shall not make application for nor be granted a securities broker-dealer license
10 from the date of entry of this Consent Order.
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12 IT IS FURTHER AGREED AND ORDERED that Charles M. Chesterfield's securities
13 salesperson registration is hereby revoked on the date of entry of this Consent Order.

14 IT IS FURTHER AGREED AND ORDERED that Respondent Charles M. Chesterfield
15 shall not make application for nor be granted a securities salesperson registration for ten (10)
16 years from the date of entry of this Consent Order. After a period of ten years from the date of
17 entry of this Consent Order, Respondent Charles M. Chesterfield may apply for reinstatement of
18 his securities salesperson registration under the condition that his sponsoring broker-dealer shall
19 provide the Securities Division with written acknowledgement that Charles M. Chesterfield is
20 not and will not be a signatory on, or otherwise be in control of any financial accounts that
21 contain funds that are held for the benefit of investors.
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24 IT IS FURTHER AGREED that Charles M. Chesterfield shall cooperate fully and
25 promptly with the Receiver appointed for Chesterfield Mortgage Investors, Inc. and with the
Securities Division of the Washington State Department of Financial Institutions, shall make
himself available to fully and truthfully answer questions and respond to any reasonable

1 requests for information, and shall promptly provide any relevant documents in his possession,
2 except to the extent that he may claim a valid legal privilege and except that he shall not be
3 required to make out of pocket expenditures to facilitate such cooperation except for minor
4 incidental expenses, including but not limited to, travel expenses of less than 150 miles,
5 postage, copying costs or other similar minor expenses and such cooperation shall not interfere
6 with Mr. Chesterfield's ability to earn a living and such cooperation shall not unreasonably
7 interfere with his ability to earn a living in a manner that does not violate this Consent Order.
8

9 IT IS FURTHER AGREED that Respondents Chesterfield Mortgage Investors, Inc. and
10 Charles M. Chesterfield hereby enter into this Consent Order freely and voluntarily and with a
11 full understanding of its terms and significance.
12

13 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this
14 Order.
15

16 IT IS FURTHER AGREED that, in consideration of the foregoing, Respondents
17 Chesterfield Mortgage Investors, Inc. and Charles M. Chesterfield, each waive their rights to a
18 hearing in this matter and to judicial review of this matter pursuant to RCW 21.20.440 and
19 chapter 34.05 RCW.
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21 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE
22

23 SIGNED this _29__ day of _Sept._____, 2010
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25 Signed by:

Chesterfield Mortgage Investors, Inc.

By _____/s/_____

Charles M. Chesterfield, President and CEO

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Approved by:

_____/s/ Robert N. Amkraut_____
Attorney for Respondent Chesterfield Mortgage Investors, Inc.
WSBA # 27412_____

Signed by:

_____/s/_____
Charles M. Chesterfield, individually

Approved by:

Attorney for Respondent Charles M. Chesterfield
WSBA # _____

SIGNED AND ENTERED this 29th day of September, 2010



WILLIAM M. BEATTY
Securities Administrator

Approved by:



Suzanne E. Sarason
Chief of Enforcement

Presented by:



Janet So
Enforcement Attorney

Reviewed by:



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Robert Kondrat
Financial Legal Examiner Supervisor