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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No.: S-14-1592-15-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
) TO ENTER ORDER TO CEASE AND DESIST, TO DENY
JOHN CHARLES HANSON;) FUTURE REGISTRATIONS, TO IMPOSE FINES, AND TO
) CHARGE COSTS
Respondent.)

7 **THE STATE OF WASHINGTON TO:** **John Charles Hanson**

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STATEMENT OF CHARGES

10 Please take notice that the Securities Administrator of the state of Washington has reason to believe that
11 Respondent, John Charles Hanson, has violated the Securities Act of Washington. These violations justify the entry of
12 an order to cease and desist from such violations pursuant to RCW 21.20.390, to deny future registration applications
13 made by John Charles Hanson pursuant to RCW 21.20.110(1), to impose an administrative fine pursuant to RCW
21.20.110(4) and RCW 21.20.395, and to charge costs pursuant to RCW 21.20.110(7) and RCW 21.20.390. The
Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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Respondent

19 1. John Charles Hanson is a Washington resident. Hanson was a former registered representative and
20 investment adviser representative at Northwestern Mutual Investment Services, LLC (“NWMIS”) from September
21 2004 to September 2014, when he resigned after NWMIS initiated an investigation into the allegations that are the
22 subject of this Statement of Charges. Hanson’s Central Registration Depository number is 2420584. In addition,
Hanson was licensed as an insurance agent or producer in Washington beginning in 2007 (WAOIC #129057) and sold
insurance products while at NWMIS. On July 29, 2015, the Washington Office of the Insurance Commissioner issued
an Order Revoking License, Order No. 15-0177, that revoked Hanson’s insurance producer license effective August
7, 2015, subject to Hanson’s right to contest the order in an administrative hearing.

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II.

Respondent's Registration Status

2. Hanson was registered with the Washington State Securities Division ("Securities Division") as an investment adviser representative and securities salesperson at NWMIS from September 2004 until September 2014. Prior to this, Hanson was registered with the Securities Division as a securities salesperson from February 1996 to May 2004, and again from June 2004 to September 2004, at various other firms. Hanson was also registered with the Securities Division as an investment adviser representative from June to September 2004 at another firm.

III.

Nature of the Conduct

3. From 2006 until 2014, Hanson made unauthorized withdrawals from the accounts of his advisory clients, took out unauthorized loans against those clients' life insurance policies, and sold fictitious investments to several clients and a personal acquaintance. The amount of the unauthorized withdrawals and loans, and the fictitious investments, totaled over \$2.4 million. All of the clients and investors were Washington residents. Several were unaccredited investors or had little experience managing their investments. The fictitious investments, totaling at least \$1.7 million, included promissory notes that Hanson told investors would be used to purchase a retiring partner's book of business, as well as an investment in a non-existent real estate investment trust ("REIT"). The \$2.4 million that Hanson fraudulently obtained remains unaccounted for.

Unauthorized Brokerage Account Withdrawals and Insurance Policy Loans

4. Beginning in 2006, Hanson made multiple unauthorized withdrawals from several investment accounts held by two of his clients at NWMIS. These clients are also his family members. As their investment adviser, Hanson managed their accounts on their behalf and they completely trusted him to do so for their benefit.

Client A

5. One client, Client A, had an IRA and a retail brokerage accounts at NWMIS that Hanson managed on her behalf. She also had three life insurance policies as part of her NWMIS portfolio.

6. From 2006 to 2008, Hanson withdrew at least \$270,000 from Client A's retail brokerage and IRA accounts without her authorization. Hanson's withdrawals from Client A's accounts nearly depleted these accounts. Hanson made the unauthorized withdrawals by forging Client A's signature on distribution request forms. The funds were wired into Client A's checking account, which Hanson had access to when Client A gave him the checkbook to the account. From there, Hanson accessed the funds by writing checks to himself, without Client A's knowledge. These funds are unaccounted for.

Client C

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13. Hanson had been Client C's investment adviser since around 2008. Though Client C is an accredited investor based on her net worth, she has little knowledge about investing and relied on Hanson to manage her retail brokerage account. After the financial crisis in 2008, Client C told Hanson she wanted to get out of the stock market. Hanson subsequently helped her sell much of her stock portfolio.

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14. Soon after, Hanson approached Client C and told her that he wanted to buy the advisory business of a colleague of his. Hanson asked Client C to invest \$150,000 so that he could purchase the business, and told Client C that he would make enough revenue from the acquired business to pay her back. Hanson did not provide Client C with any other details about the proposed acquisition, including the financial state of the business or the risks of investing.

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15. In September 2010, Investor C invested \$150,000 with Hanson. Hanson issued her a promissory note that matured in five years and required him to make monthly interest-only payments until maturity, at an interest rate of 15% per annum. Almost immediately, Hanson was late in making interest payments.

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16. Within a few months, Hanson approached Client C again and asked her to invest more into his purported business. He continued to do so several more times over the next year, and again in November 2013. Hanson eventually sold Client C eleven more promissory notes that totaled \$910,000. Client C paid for her investments with cashier's checks or personal checks made payable to Hanson. With each additional investment that Hanson solicited from Client C, Hanson provided Client C with little to no information about the business that he purchased.

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17. For each investment, Hanson issued to Client C a promissory note that bore an interest rate of 15% per annum and matured in about three to five years. Hanson was to make monthly interest-only payments for each note until the maturity date, at which time he was required to pay a balloon payment of the original principal. Hanson represented to Client C that he would use the revenue he generated from the acquired business to repay her. Hanson was often late on making the interest payments to Client C.

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18. Hanson never had any agreements to purchase his colleague's books of business. All of Client C's investment funds are unaccounted for. Around spring 2014, Hanson informed Client C that he was experiencing financial and legal issues, and would no longer be making any payments to her.

Client D

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19. Client D, a retired school guidance counselor, had little investment experience. Client D's NWMIS portfolio included two retail brokerage accounts and a variable annuity IRA. Client D depended primarily on income from these accounts for her monthly living expenses.

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20. Around 2011, Hanson began meeting with Client D away from his NWMIS office and told her about

1 a REIT that would produce a guaranteed rate of return of 9% over three years. He told Client D that he had
2 recommended the REIT to his own mother. Hanson provided no other information about the REIT to Client D,
3 including the name of the REIT, an explanation of what exactly a REIT was or the risks associated with such an
4 investment.

5 21. In August 2011, Client D made an initial investment of \$80,000 in the REIT, using funds from one of
6 her brokerage accounts. She wrote a personal check payable to Hanson. Hanson did not provide Client D with any
7 documents regarding the REIT investment, including a prospectus or any confirmation of her investment.

8 22. Over the next couple of years, Hanson continued to solicit Client D to increase her investment in the
9 REIT. Ultimately, Hanson solicited Client D to invest a total of \$292,500 in the REIT. She paid for all of her
10 investments by withdrawing funds from her brokerage accounts and annuity, and then wrote personal checks to
11 Hanson. As with the initial REIT investment, Hanson never provided Client D with any documents evidencing the
12 REIT.

13 23. Because Client D sold investments in her IRA to pay for the REIT, she incurred a tax liability of
14 about \$46,000 that she paid for using her own funds. Prior to her investment, Hanson did not disclose to Client D that
15 this would be a consequence of selling her IRA investments. Hanson subsequently deposited a check in Client D's
16 checking account for \$50,000, writing on the check that it was a "distribution," presumably from her REIT
17 investment.

18 24. Client D continued to receive official account statements from NWMIS, none of which listed the
19 REIT in her portfolio. Client D requested that Hanson send her NWMIS statements that included the REIT
20 investments. Beginning January 2014, Hanson created fictitious NWMIS account statements that purported to
21 evidence the REIT and mailed them the Client D. On these fictitious statements, Hanson called the REITs "NML
22 REIT Trust Series I" and "NML REIT Trust Series II."

23 25. Hanson never invested Client D's funds in any REITs and the REITs did not exist, as confirmed by
24 NWMIS. All of Client D's investments funds are unaccounted for.

25 Other Investors of Hanson's Fictitious Investments

26 26. From approximately February 2013 to July 2014, Hanson solicited investments from at least seven
27 other Washington residents, including his relatives, Clients A and B. Hanson was the financial adviser for most of
28 these investors. These additional investments totaled at least \$527,000. The investors paid for their investments by
29 writing personal checks to Hanson.

30 27. Hanson sold promissory notes to almost all of these investors. Hanson also sold an investment
31 contract to the investor who did not receive a promissory note or any other document evidencing her investment.
32 Under most of the notes, Hanson promised to pay the investors an interest rate of 15% per annum. The notes matured
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1 in one to five years and required Hanson to make interest-only payments with a final balloon payment of the entire
2 principal at maturity.

3 28. Hanson told all of these investors that he needed the funds to buy out his colleague's book of
4 business. Hanson told these investors that the business would be sufficient to repay the investors without providing a
5 basis for this assurance.

6 29. Overall, Hanson provided little to no information to the investors about the business he was
7 purchasing. Hanson provided at least two investors with spreadsheets containing what Hanson purported to be actual
8 or projected revenue figures for the business, without providing a basis for the projections. Hanson also provided at
9 least two other investors with what he claimed were contracts evidencing his purchase of the book of business.
10 However, Hanson created these contracts himself and forged the signatures of the other parties to the purported
11 transaction, including the signature of a fictitious person that Hanson created.

12 30. Hanson recommended to one investor that she fund her \$70,000 investment by taking out a loan
13 against her NWMIS life insurance policy, which she did. This investor wanted additional reassurance should the
14 investment somehow fall through, even though Hanson disclosed no risks to her, and asked Hanson to take out a life
15 insurance policy on himself with the investor as the beneficiary. Hanson agreed to do so. After her investment,
16 Hanson provided the investor with a copy of a Certificate of Temporary Insurance from the insurance company as
17 proof that he had complied. However, unbeknownst to the investor, Hanson failed to submit additional underwriting
18 requirements to the insurance company to finalize the policy and the policy was cancelled as a result.

19 31. Hanson never had an agreement with any colleague to purchase their book of business. Hanson is
20 believed to have used all of the investors' funds for his personal expenses.

21 IV.

22 Prior Bankruptcies

23 32. In March 2010, Hanson filed a Chapter 13 voluntary bankruptcy petition that was later converted to a
24 Chapter 7 bankruptcy. Hanson received a discharge in August 2010. Hanson did not disclose this bankruptcy to at
25 least one investor.

33. In August 2012, Hanson filed another Chapter 13 bankruptcy petition. Hanson failed to comply with
the filing and meeting requirements in the bankruptcy proceeding. As a result, the bankruptcy court dismissed the
proceeding on November 9, 2012. Hanson did not disclose this bankruptcy to at least one investor.

V.

FINRA Permanent Ban

34. In September 2014, FINRA began investigating Hanson concerning the allegations that are the

1 subject of this Statement of Charges. Hanson did not cooperate with FINRA's investigation by refusing to provide
2 requested documents or testimony. To settle the matter, Hanson entered into a Letter of Acceptance, Waiver and
3 Consent (No. 2014042675001) ("AWC") with FINRA on November 6, 2014, in which he neither admitted nor denied
4 the allegations. In the AWC, FINRA permanently barred Hanson from associating with any FINRA broker-dealer in
5 any and all capacities, including as a security salesperson.

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

7 CONCLUSIONS OF LAW

8 1. The offer and sale of promissory notes, the investment contract described in Paragraph 27, and the real
9 estate investment trust constitute the offer and sale of a security as defined in RCW 21.20.005(14) and (17).

10 2. John Charles Hanson violated RCW 21.20.140 because no registration for such an offer and/or sale is
11 on file with the State of Washington Securities Administrator, nor is any current claim of exemption. Such conduct is
12 grounds for the denial of Hanson's future broker-dealer, securities salesperson, investment adviser, or investment
13 adviser representative registration applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW
14 21.20.110(4) and RCW 21.20.395, and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

15 3. In connection with the offer and/or sale of securities, John Charles Hanson violated RCW
16 21.20.010(1) and (3) by employing a device, scheme or artifice to defraud investors; and by engaging in an act,
17 practice or course of business which operated and would operate as a fraud or deceit upon on another person, by
18 selling promissory notes and an investment contract under the false pretense that he would use the investment funds to
19 purchase a book of business, by selling a fictitious real estate investment trust, and by making unauthorized
20 withdrawals from an advisory client's account to purchase a fictitious certificate of deposit. Such conduct is grounds
21 for the denial of Hanson's future broker-dealer, securities salesperson, investment adviser, or investment adviser
22 representative registration applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW
23 21.20.110(4) and RCW 21.20.395, and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

24 4. In connection with the offer and/or sale of securities, John Charles Hanson violated RCW
25 21.20.010(2) by making untrue statements of material facts or omitting material facts necessary in order to make the
statements made, in light of the circumstances under which they were made, not misleading, by selling promissory
notes and an investment contract under the false pretense that he would use the investment funds to purchase a book of
business, by selling a fictitious real estate investment trust, by making unauthorized withdrawals from an advisory
client's account to purchase a fictitious certificate of deposit, and by making other withdrawals and taking out policy
loans without the knowledge or consent of his advisory clients. Such conduct is grounds for the denial of Hanson's
future broker-dealer, securities salesperson, investment adviser, or investment adviser representative registration

1 applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395,
2 and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

3 5. John Charles Hanson, in his capacity as an investment adviser, violated RCW 21.20.020(1) by
4 employing a device, scheme or artifice to defraud investors; by engaging in an act, practice, or course of business
5 which operated or would operate as a fraud or deceit upon another person; and by engaging in dishonest or unethical
6 practices as defined under WAC 460-24A-220(4) and (20), by selling promissory notes and an investment contract
7 under the false pretense that he would use the investment funds to purchase a book of business, by selling a fictitious
8 real estate investment trust, by placing an order to purchase or sell a security for the account of a client without
9 authority to do so when he sold securities in his advisory clients' brokerage accounts and withdrew the funds, without
10 his clients' knowledge. Such conduct is grounds for the denial of Hanson's future broker-dealer, securities
11 salesperson, investment adviser, or investment adviser representative registration applications under RCW
12 21.20.110(1)(b) and (g), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the
13 charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

14 6. John Charles Hanson, in his capacity as a securities salesperson, also engaged in dishonest or
15 unethical practices in the securities business as defined under: WAC 460-22B-090(2) by selling fictitious investments
16 to his clients and making unauthorized withdrawals from his clients' accounts off the books and records of NWMIS;
17 WAC 460-22B-090(8) by making unauthorized withdrawals from his clients' accounts and taking out unauthorized
18 loans against a client's insurance policies; WAC 460-22B-090(12) by failing to furnish any final prospectus to any of
19 the investors that he sold fictitious investments to; WAC 460-22B-090(13) by selling promissory notes and an
20 investment contract under the false pretense that he would use the investment funds to purchase a book of business,
21 selling a fictitious real estate investment trust, and selling securities from a client's account under the false pretense
22 that the funds would be used to pay for fictitious certificate of deposits; WAC 460-22B-090(16) by providing fictitious
23 contracts, projections, spreadsheets and other documents to investors when he sold them the fictitious investments; and
24 WAC 460-22B-090(19) by failing to comply with any applicable provision of the Conduct Rules of FINRA, namely
25 FINRA Rules 2010, 2020 and 2150. Such conduct is grounds for the denial of Hanson's future broker-dealer,
securities salesperson, investment adviser, or investment adviser representative registration applications under RCW
21.20.110(1)(g), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the charging of
costs under RCW 21.20.110(7) and RCW 21.20.390.

7. John Charles Hanson is the subject of an order issued by a self-regulatory organization, namely
FINRA's Letter of Acceptance, Waiver and Consent (No. 2014042675001), entered after notice and opportunity for a
hearing, which permanently barred Hanson from associating with any FINRA broker-dealer in any and all capacities,
including as a securities salesperson. The entry of this order is grounds for the denial of Hanson's future broker-
dealer, securities salesperson, investment adviser, or investment adviser representative registration applications under

1 RCW 21.20.110(1)(e)(iii), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the
2 charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

3 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

4 Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
5 the Securities Administrator intends to order that John Charles Hanson shall cease and desist from violating RCW
6 21.20.010, RCW 21.20.020 and RCW 21.20.140.

7 **NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS**

8 Pursuant to RCW 21.20.110(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
9 the Securities Administrator intends to order that any broker-dealer, securities salesperson, investment adviser, or
10 investment adviser representative registration applications that John Charles Hanson may file in the future be denied.

11 **NOTICE OF INTENT TO IMPOSE A FINE**

12 Pursuant to RCW 21.20.395 and RCW 21.20.110(4) and based upon the above Tentative Findings of Fact and
13 Conclusions of Law, the Securities Administrator intends to order that John Charles Hanson shall be liable for and
14 shall pay a fine of \$120,000. Such fine may be waived if John Charles Hanson provides full restitution to the
15 investors and clients that are the subject of this Statement of Charges and provides evidence to the Securities Division
16 that such restitution has been fully made.

17 **NOTICE OF INTENT TO CHARGE COSTS**

18 Pursuant to RCW 21.20.390 and RCW 21.20.110(7), and based upon the above Tentative Findings of Fact
19 and Conclusions of Law, the Securities Administrator intends to order that John Charles Hanson shall be liable for
20 and shall pay investigative costs of \$5,000.

21 **AUTHORITY AND PROCEDURE**

22 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the
23 provisions of Chapter 34.05 RCW. The respondent, John Charles Hanson may make a written request for a hearing as
24 set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying
25 this Order. If John Charles Hanson does not make a hearing request in the time allowed, the Securities Administrator
intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order
to cease and desist as to that respondent, to impose any fines sought against that respondent, and to charge any costs
sought against that respondent.

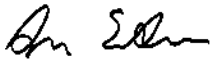
1 Signed and Entered this 24th day of August, 2015.

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5 WILLIAM M. BEATTY
6 Securities Administrator

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8 Approved by:

9 Presented by:

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12 SUZANNE SARASON
13 Chief of Enforcement

14 HUONG LAM
15 Financial Legal Examiner

16 Reviewed by:

17 

18 JACK MCCLELLAN
19 Financial Legal Examiner Supervisor