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:

North America Real Estate Investment Grou

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Order No.: S-18-2483-19-SC01

North America Real Estate Investment Group Inc., d/b/a NAREIG International Realty, Inc.; Haitao Lin a/k/a Hunter Lin,

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO IMPOSE A FINE, AND TO CHARGE COSTS

Respondents

THE STATE OF WASHINGTON TO:

North America Real Estate Investment Group Inc. Haitao Lin a/k/a Hunter Lin

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents North America Real Estate Investment Group Inc. and Haitao Lin, a/k/a Hunter Lin, have each violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order against the Respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and under RCW 21.20.395 to impose a fine. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. North America Real Estate Investment Group Inc., d/b/a NAREIG International Realty, Inc. ("NAREIG") is a Washington State corporation formed on April 5, 2012, with its principal place of business in Kirkland, Washington. NAREIG's primary business is real estate brokerage services for Chinese investors seeking to invest in American real estate.

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2. Haitao Lin, a/k/a Hunter Lin ("Lin"), is the CEO of NAREIG and a resident of Bellevue, Washington. Lin had ultimate authority over the HCT cryptocurrency offering and created or approved most of NAREIG's offering materials for the HCT, as described further below.

Overview

3. In January 2018, NAREIG conducted an Initial Coin Offering ("ICO") of its in-house cryptocurrency called a "House Coupon Token" ("HCT"). Although the HCT was nominally a coupon for discounts on real estate broker commissions, NAREIG marketed it as a stable and potentially profitable investment for purchasers who did not intend to use it as a coupon. In marketing the HCT, NAREIG and Lin made several misrepresentations or omissions of material information. For instance, NAREIG and Lin made misleading statements about the stability of the token and their ability to refund purchasers if they did not meeting their goals for the sale, and failed to disclose that the only person with the master "private key" for the cryptocurrency was an independent contractor located in Beijing.

The HCT Offering

4. NAREIG offered the HCT to purchasers primarily through a whitepaper¹ and accompanying promotional website. Lin was primarily responsible for drafting the whitepaper, and had final approval authority over its contents. In the whitepaper, NAREIG and Lin described the HCT as both "a type of coupon to purchase real estate property" and an investment for people who did not plan to purchase real estate. For purchasers who planned to use the HCT as a coupon, the HCT would enable them, when buying real estate through NAREIG, to a discount of \$100 per token on their broker commissions, up to 25% of the total

¹ A "whitepaper" is an offering document used in nearly all cryptocurrency offerings. The specific contents of the whitepaper vary substantially depending on the offering, but most whitepapers contain an overview of the cryptocurrency being offered, its potential uses, and the business and technical background of its developers.

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commission amount. For instance, a real estate purchaser buying a property for \$1 million, with a 3% broker commission of \$30,000, could use up to 75 HCTs for a discount of \$7,500 on the commission.

- 5. Although the HCT functioned as a coupon, NAREIG's marketing efforts were substantially focused on the HCT as a passive investment for purchasers. NAREIG referred to the HCT as an "investment" and token purchasers as "investors" in various marketing materials. NAREIG also claimed that the HCT "has stable value and can be a good investment option in the financial downturns." NAREIG also emphasized the upside potential of the token and its use for investment diversification purposes. On the website used to promote the HCT, NAREIG posted a question-and-answer page. Lin had final approval over the contents of the page. NAREIG claimed, in the question-and-answer page, that the HCT has "[c]lear upside because the one \$1 token will be worth \$100 during redemption," and that the link between cryptocurrency and real estate would "provide[] the token holders with a diversified, risk adjusted portfolio." Consistent with these representations, at least one investor believed that the "intrinsic value" of the HCT was \$100, and that they would be able to sell the token for \$10 to \$50.
- 6. NAREIG took payment for HCTs in Ethereum and Bitcoin tokens. NAREIG raised 43.55 Ethereum tokens and 0.18 Bitcoin from HCT purchasers. At the time of the ICO, 43.55 Ethereum tokens and 0.18 Bitcoin were collectively worth approximately \$45,600.² Early HCT purchasers received one HCT for every \$0.50 they paid in Ethereum or Bitcoin, with the price later rising to \$0.75 per HCT.³

Profit Based on NAREIG's Efforts

7. Based on NAREIG and Lin's statements in the whitepaper and elsewhere, HCT purchasers would have reasonably expected to make a profit on the HCT from NAREIG's efforts and the overall success

² This estimate is based on Yahoo Finance's listed closing prices for Ethereum and Bitcoin as of the date of each transaction.

³ NAREIG planned to eventually raise the price to \$1 during the offering after selling a certain number of HCTs, but ultimately did not reach their target for raising the price.

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STATEMENT OF CHARGES AND NOTICE

OF INTENT TO ENTER ORDER TO CEASE AND DESIST, TO IMPOSE A FINE, AND TO CHARGE COSTS

of the HCT offering. For instance, NAREIG claimed in the whitepaper that "[t]he more people buying HCT from us, the more bargaining power NAREIG has in negotiation of real estate deals. At the same time, real estate buyers will benefit from noticeable commission savings. With the growth of HCT investors, NAREIG will expand its market presence quickly, which in turn increase the HCT value." Similarly, NAREIG touted its business and real estate acumen throughout the whitepaper, leading potential investors to believe that the value of the token would increase due to NAREIG's performance as a company.

NAREIG'S CEO was aware that some purchasers would buy the token as an investment rather than a coupon, with the intent to resell it later for a higher price. NAREIG made no effort to limit the purchase of the HCT to potential real estate investors who would actually use the token. NAREIG did not verify that HCT purchasers lived in a country where NAREIG offered real estate brokerage services, that they wanted to invest in property in other countries, or that they had the necessary amount of assets to invest in real estate at all. In the whitepaper, NAREIG encouraged non-real-estate buyers to purchase the token, stating in the whitepaper that, "[f]or those who are not interested in purchasing real estate [using the HCT], they can easily trade HCT at exchange platform." NAREIG's president also applied to a cryptocurrency exchange website to have the HCT listed for trading with both Ethereum and Bitcoin.

Material Misrepresentations and Omissions

9. NAREIG failed to disclose many of the risks associated with investing in HCTs, and failed to provide a reasonable basis for several statements in the whitepaper. In particular, in an FAQ on its website advertising the ICO, NAREIG claimed that it would refund HCT purchasers if it failed to reach its targeted "softcap" of \$1.5 million.⁴ NAREIG failed to disclose, however, that it would spend their cryptocurrency on further advertising the ICO, and would not have it available to make refunds. Although the number of HCTs

⁴ A "softcap" generally refers to the minimum amount sought by a company in a particular ICO.

sold fell well short of the softcap, NAREIG refunded only one HCT purchaser, who specifically requested the refund.

- 10. NAREIG also offered a "bounty program" in February and March 2018, where it gave HCTs to people who advertised the HCT on various Internet forums, or who translated offering and promotional documents into different languages. Most of the program participants simply reposted the contents of the whitepaper on blogs and cryptocurrency-related websites, but some made inaccurate representations beyond those in NAREIG-created materials. For instance, one participant claimed in a March 2018 blog post that NAREIG's "value of the coupon marker does not fluctuate, like any other crypt currencies [sic], and it is easy to liquidate." At the time, the HCT was not traded on any cryptocurrency exchanges, meaning that it was not easy to liquidate. NAREIG rewarded this user with 100 HCTs.
- 11. NAREIG and Lin failed to provide any reasonable basis for their claims that HCTs would have a "stable value" and would be "a good investment option in the financial downturns." NAREIG and Lin also failed to disclose the likelihood that the broader market for cryptocurrency would affect the value of the HCT, the difficulty of securely storing cryptocurrencies, or the risk that the rapidly-changing regulatory environment for cryptocurrencies could affect the legal status of the tokens or the exchanges where they were traded. On the ICO website, NAREIG and Lin claimed that compared to other cryptocurrencies, which had "already proved to be unreliable and prone to volatility," the HCT's purpose was to "provide a stable token that can benefit the buyers at any time." In making this statement, NAREIG and Lin failed to adequately disclose that the purported stability of the HCT only described its use for discounts on real estate broker commissions, and that the value could be extremely unstable if the token was bought for investing purposes.

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12. NAREIG also failed to disclose that its private key⁵ for the HCT was in the hands of a Chinabased contractor rather than NAREIG. In approximately March or April of 2018, the contractor who had designed and coded the HCT for NAREIG became upset with his compensation and demanded higher pay from NAREIG. NAREIG refused to agree to pay the contractor more, and was ultimately forced to retire the HCT and create a new, identically-functioning token called the Real Estate Coupon Token ("RECT"). NAREIG failed to disclose that their overseas contractor was the only person with a private key, and further failed to disclose the risks associated with their inability to access the private key, such as the risk that an independent holder of the private key could manipulate the market for HCTs or destroy the existing tokens.

Registration Status

- 13. Lin is not and has never been registered to sell securities in the State of Washington.
- 14. NAREIG and Lin have not registered the HCTs or RECTs as securities for sale in the State of Washington, nor have they filed a claim of exemption from registration.

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

CONCLUSIONS OF LAW

- 1. The offer and/or sale of the HCTs, as described above, constitute the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).
- 2. NAREIG and Lin have each violated RCW 21.20.140, because, as set forth in the Tentative Findings of Fact, they offered and/or sold securities for which no registration is on file with the Securities Administrator.
- 3. Lin has violated RCW 21.20.040 by offering and selling said securities without being registered as a securities salesperson or broker-dealer in the State of Washington.

⁵ A "private key," in the cryptocurrency context, is essentially a master password that allows a user to access their cryptocurrency wallets, and to spend or otherwise transfer the cryptocurrencies in that wallet.

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STATEME

4. NAREIG and Lin have each violated RCW 21.20.010, because, as set forth in the Tentative Findings of Fact, NAREIG and Lin made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances in which they were made, not misleading.

NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST

Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order, pursuant to RCW 21.20.390(1), that Respondents North America Real Estate Investment Group Inc., Haitao Lin a/k/a Hunter Lin, and their agents and employees, each shall cease and desist from violations of RCW 21.20.010 and RCW 21.20.140, and that Respondent Haitao Lin a/k/a Hunter Lin, and his agents and employees, shall cease and desist from violations of RCW 21.20.040.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents North America Real Estate Investment Group Inc. and Haitao Lin a/k/a Hunter Lin shall be jointly and severally liable for and shall pay a fine of \$10,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents North America Real Estate Investment Group Inc. and Haitao Lin a/k/a Hunter Lin shall be jointly and severally liable for and shall pay the costs, fees, and other expenses incurred in the administrative investigation and hearing of this matter, in an amount not less than \$2,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. Respondents North America Real Estate Investment Group Inc. and Haitao Lin a/k/a Hunter Lin may make a written request for a hearing as set forth in the NOTICE OF

1	OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If the				
2	Respondents do not make a hearing request in the time allowed, the Securities Administrator intends to adopt				
3	the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease				
4	and desist, to impose the fines sought against the Respondents, and to charge the costs sought against the				
5	Respondents.				
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7	Signed and Entered this 8th day of April, 2019.				
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9		William Harange			
10		William M. Beatty Securities Administrator			
11	Approved by:	Presented by:			
12		Odom Yeston			
13	of 20m	Adam N. Yeaton			
14	Suzanne Sarason Chief of Enforcement	Financial Legal Examiner			
15	Reviewed by:				
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17	Jack McClellan Financial Legal Examiner Supervisor				

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