

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 The Sound Mortgage Brokers, LLC,
8 Rochester 1-8, LLC,
9 Bruce Phillip Hills, a/k/a Phil Hills,

10 Respondents.

Order No. S-18-2571-20-CO01

CONSENT ORDER

11 **INTRODUCTION**

12 On February 7, 2020, the Securities Administrator of the Securities Division of the Department of
13 Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Enter
14 Order to Cease and Desist, to Impose a Fine, and to Charge Costs (“Statement of Charges”), Order Number
15 S-18-2571-19-SC01, against Respondents The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and
16 Bruce Phillip Hills, a/k/a Phil Hills. Pursuant to the Securities Act of Washington, Chapter 21.20 RCW, the
17 Securities Division and Respondents The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce
18 Phillip Hills, a/k/a Phil Hills, do hereby enter into this Consent Order in settlement of the matters set forth in
19 the Statement of Charges and as alleged below. Respondents The Sound Mortgage Brokers, LLC; Rochester
20 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil Hills, neither admit nor deny the Findings of Fact and
21 Conclusions of Law as stated below.

22 **FINDINGS OF FACT**

23 **Respondents**

1. The Sound Mortgage Brokers, LLC (TSMB) is a Washington limited liability company that
was formed on February 1, 2017. Its principal place of business is Seattle, Washington. TSMB is in the
business of brokering commercial mortgages.

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DEPARTMENT OF FINANCIAL INSTITUTIONS
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1 experienced real estate broker and successful real estate investor. Hills failed to disclose to the investor that
2 Hills was not a real estate broker, and that Hills did not have experience investing in rental properties. Hills
3 also failed to disclose material information related to his financial background because he failed to disclose
4 that he had filed for Chapter 7 bankruptcy in 2011 and received a discharge of his debts in 2012.

5 7. Hills told the investor that Hills had access to hundreds of rental properties in Rochester, New
6 York that were for sale. Hills told the investor that Hills and TSMB were working on creating multiple real
7 estate investments by bundling the properties into limited liability companies (LLCs) and offering the LLCs
8 for investment. Hills told the investor that his goal was to partner with people like the investor and eventually
9 earn multimillions in residual income from Hills's real estate strategy.

10 *Rochester 1-8 Investment*

11 8. On or around November 2, 2017, Hills offered the investor a \$115,000 investment in
12 Rochester 1-8, which would own eight rental properties chosen by Hills and TSMB. Hills told the investor
13 that the investment would result in net annual income of \$37,140 and a return of the principal investment in
14 three years. The investment's return would come from the properties' rental income. Hills told the investor
15 that the investor would receive rental income a month after the purchase of the properties.

16 9. Hills told the investor that the investor would own 80% of Rochester 1-8, while TSMB would
17 own 20%. TSMB would receive 20% of Rochester 1-8 for finding and bundling the properties, and for
18 managing the investment. The investor would not have control over which properties the LLC purchased,
19 and the investor's investment would be passive. The investor and TSMB would each receive a prorated share
20 of the properties' rental income based on their ownership of Rochester 1-8.

21 10. Hills and TSMB provided the investor with information about the eight properties that
22 Rochester 1-8 planned on purchasing, including the price, estimated operating expenses, and rental income.
23 Hills and TSMB failed to disclose to the investor that Hills and TSMB did insufficient due diligence on the

1 properties, and that they were relying on the bank to conduct the necessary due diligence. Hills and TSMB
2 did not determine whether there were chain of title issues with the properties, and they did not determine
3 whether any of the properties were encumbered by liens. Hills and TSMB also failed to disclose to the
4 investor the risk that any encumbrances or chain of title issues on the properties could increase closing costs
5 and delay or prevent the purchase of the properties.

6 11. The combined price of the eight properties was about \$400,000. Hills told the investor that,
7 to purchase the properties, Rochester 1-8 would take out a loan from Canandaigua National Bank and Trust
8 (CNB), a bank based in Rochester, New York. CNB's loan would be secured by the eight properties. The
9 investor would also personally guarantee the loan. Hills told the investor that it would take about 60 days for
10 the loan to close.

11 12. Hills, TSMB, and Rochester 1-8 told the investor that the investment funds would be used to
12 close the purchase of the properties. This included the down payment, which was about 20% of the properties'
13 price, plus closing costs, a reserve for property taxes, insurance, and repairs, reimbursements to TSMB, and
14 a 1% loan fee to TSMB upon the loan closing. After the purchase closed, any excess funds would be returned
15 to the investor.

16 13. Hills, TSMB, and Rochester 1-8 failed to disclose to the investor that the investment funds
17 would not be placed in escrow, so there was no guarantee that the funds would be held until closing or
18 distributed as described by Hills, TSMB, and Rochester 1-8. Hills, TSMB, and Rochester 1-8 also
19 misrepresented the use of funds to the investor because they failed to disclose that Hills and TSMB would
20 use a majority of the investment funds for purposes other than purchasing the properties.

21 14. On November 22, 2017, Consumer Services entered a Statement of Charges against Hills and
22 several other respondents. Consumer Services alleged that Hills violated the Mortgage Broker Practices Act
23 of Washington by conducting the business of a mortgage loan originator from unlicensed branch office

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1 locations, using trade names that were not approved by DFI, and failing to include required licensing
2 disclosures on certain websites. Hills did not disclose this Statement of Charges to the investor.

3 15. On December 5, 2017, TSMB notified the investor that CNB had committed to loaning
4 \$313,520 to Rochester 1-8 for the purchase of the eight properties. CNB's loan commitment to Rochester 1-
5 8 was scheduled to expire on January 31, 2018.

6 16. On December 7, 2017, the investor wired \$110,938.50 to Rochester 1-8's bank account at
7 CNB to invest in Rochester 1-8.

8 *Lamont Place Investment*

9 17. On or around December 29, 2017, Hills offered the investor an additional investment in a
10 single rental property, which was located on Lamont Place in Rochester, New York. Hills told the investor
11 that the property was under contract, and that it was not bundled into an LLC. Hills told the investor that the
12 house was being sold for \$37,000, that the property had an estimated value of \$50,000, and that it could be
13 worth \$80,000 with minor upgrades.

14 18. Hills offered to split the purchase of the property with the investor. Hills told the investor that
15 the seller of the rental properties had given Hills credits for facilitating the sale of multiple properties. Hills
16 would use these credits to purchase his portion of the house, while the investor would contribute cash. Hills
17 told the investor that the structure would be the same as Rochester 1-8, with an LLC owning the property
18 and Hills and the investor each owning a portion of the LLC. In this instance, Hills and the investor would
19 each own 50% of the LLC and split the profits. As with the first LLC, the investment would be passive for
20 the investor, and Hills would manage the investment.

21 19. Hills told the investor that the investment funds would be used to pay the investor's half of
22 the sale price, \$18,500, as well as closing costs. Hills failed to disclose to the investor that the investment
23 funds would not be placed in escrow, so there was no guarantee that the funds would be held until closing or

1 distributed as described by Hills. Hills misrepresented the use of funds to the investor because he failed to
2 disclose that Hills and TSMB would use a majority of the Lamont Place investment funds for purposes other
3 than purchasing the properties.

4 20. On January 3, 2018, Hills told the investor that the appraisals for the Rochester 1-8 properties
5 had come back and the values looked good. Hills said that they were waiting on a few things but were very
6 close to closing.

7 21. On or around January 3, 2018, the investor agreed to invest in the Lamont Place investment.
8 Shortly after, it was decided that the Lamont Place property would be purchased by Rochester 1-8 in order
9 to avoid the time and expense of creating a new LLC. On January 8, 2018, the investor wired \$21,311.50 to
10 Rochester 1-8's bank account for the Lamont Place investment.

11 22. After the investor invested in Rochester 1-8 and Lamont Place, the sale of the nine rental
12 properties never closed. The sale was repeatedly delayed because of issues with the chain of title for many
13 of the properties, the expiration of certificates of occupancy for some of the properties, and the presence of
14 tax liens on each of the properties. On multiple occasions over several months, Hills told the investor that
15 they would be ready to close the sale soon, but closing never occurred. During this time period, Hills
16 continued to offer the investor additional investments. Hills and TSMB also used the Rochester 1-8 and
17 Lamont Place investment funds for purposes other than the purchase of properties.

18 *Misuse of Funds*

19 23. Beginning on or around December 11, 2017, Hills and TSMB began transferring investment
20 funds from Rochester 1-8's bank account to TSMB's account at HomeStreet Bank in Seattle, Washington.

21 24. Between December 11, 2017 and January 18, 2018, Hills and TSMB transferred over \$21,000
22 of the investment funds to TSMB's bank account. Hills and TSMB used about \$11,000 of the funds on fees
23 and reimbursements related to the investments. Hills and TSMB used about \$10,000 of the funds for purposes

1 other than the investment, including transferring \$8,000 to a third bank account and spending funds on TSMB
2 business expenses.

3 25. On January 25, 2018, Hills told the investor that TSMB's attorney was meeting with the
4 sellers that day, and Hills estimated that they should be setting a closing date within the next week. On
5 February 20, 2018, Hills told the investor that they were waiting for the seller's attorney to receive the payoffs
6 amounts for the tax liens, and that they would have a closing date by the end of the week. A closing date was
7 not scheduled.

8 26. On February 21, 2018, Hills offered the investor a new \$143,000 investment in nine
9 properties. Hills told the investor that the investment would result in a net annual income of \$22,000 and a
10 return of 15.7%. Hills failed to disclose to the investor material information related to this offer, including a
11 description of the properties, the basis of Hills's projections, and the risks of investing. Hills also failed to
12 disclose that, at this point, Hills and TSMB had used about \$10,000 of the investor's funds from the Rochester
13 1-8 and Lamont Place investments for purposes other than the purchase of the properties.

14 27. On March 2, 2018, Hills told the investor that the seller's attorney had received the payoff
15 amounts for the tax liens the day before, and that their attorney was reviewing the documents and would let
16 them know when they could close. On March 16, 2018, Hills told the investor that their attorney would be
17 contacting CNB that Monday to start preparing the documents for closing. On March 21, Hills told the
18 investor that the title company was working on the closing statement and asked the best way to coordinate
19 with the investor for a notary. Despite these communications, the purchase of the properties did not close.

20 28. Between April 11, 2018 and April 16, 2018, Hills and TSMB transferred \$6,000 of the
21 investment funds from Rochester 1-8's account to TSMB's bank account. Hills then transferred the \$6,000
22 to a third account. On April 16, 2018, Hills texted the Washington investor and told him that they were
23

1 waiting on certificate of occupancy inspections for a couple of the properties. Hills told the investor that the
2 bank offered to close without the inspections but Hills didn't want to close without them.

3 29. On April 16, Hills offered the investor a new \$80,000 investment in a triplex that Hills said
4 was valued at \$120,000. Hills offered to split the price of the triplex with the investor. Hills said that they
5 could flip the triplex in about 6 months, and Hills would give the investor all of the profit to make up for how
6 long the Rochester 1-8 and Lamont Place investments were taking. Hills failed to disclose to the investor
7 material information about this offer, including a basis for Hills's projections and the risks of flipping a
8 property. Hills also failed to disclose that, at this point, Hills and TSMB had used about \$16,000 of the
9 Rochester 1-8 and Lamont Place investment funds for purposes other than the purchase of the properties.

10 30. Between April 17, 2018 and April 26, 2018, Hills and TSMB made additional transfers
11 totaling \$30,000 from Rochester 1-8's bank account to TSMB's account. Between April 24, 2018 and May
12 18, 2018, Hills and TSMB used the \$30,000 on purposes other than the investment, such as office rent,
13 restaurants, retail, and a deposit and rent for Hills's personal residence. Hills also transferred \$10,000 of the
14 funds to a third bank account. In addition, Hills used \$5,500 of the funds to pay the costs and fines that he
15 owed to Consumer Services pursuant to a Consent Order, which he entered into to settle the Statement of
16 Charges entered against him in November 2017.

17 31. On April 26, 2018, Rochester 1-8's bank account balance had fallen to about \$70,000 due to
18 withdrawals by Hills and TSMB. This amount was far less than what was needed to close on the purchase of
19 the nine properties, which required about \$80,000 for the down payment on the Rochester 1-8 properties,
20 \$18,500 to purchase the Lamont Place property, and additional funds for closing costs, lien payoffs, attorney
21 fees, and loan fees.

22 32. Hills and TSMB did not disclose to the investor that, between December 2017 and April 2018,
23 Hills and TSMB had transferred about \$57,000 of the investment funds to TSMB's bank account and used

1 the majority of the funds on purposes other than the purchase of the properties. Hills and TSMB also did not
2 disclose that Rochester 1-8's bank account no longer contained sufficient funds to close on the purchase of
3 the properties.

4 33. Hills and TSMB continued to transfer investment funds to TSMB's account. By May 30,
5 2018, the balance in Rochester 1-8's bank account was about \$30,000.

6 34. On June 1, 2018, CNB notified Hills and the investor that, after waiting several months past
7 the expiration of its loan commitment, CNB would not loan the funds for the purchase of the rental properties.

8 35. On or around June 1, 2018, Hills transferred \$30,000 from Rochester 1-8's bank account to
9 TSMB's bank account, leaving a balance of \$854.18 in Rochester 1-8's bank account.

10 36. On June 3, 2018, the investor contacted CNB and requested that his funds be returned to him.
11 In response, CNB notified the investor that Hills had already withdrawn the funds from the account.

12 37. On June 4, 2018, the investor contacted Hills, asked about the investments, and requested that
13 his investment funds be returned to him. Hills told the investor that he was traveling to Rochester and asked
14 for time to save the investment. The next day, Hills told the investor that CNB had agreed to an extension to
15 allow for the certificates of occupancy to be completed, and that it was not the time to move the investment
16 funds.

17 38. Hills did not tell the investor that, over the previous months, Hills and TSMB had transferred
18 a total of about \$127,000 of the investor's funds out of Rochester 1-8's bank account, or that Hills and TSMB
19 had used the majority of the investor's funds for purposes other than purchasing the investment properties.

20 39. Hills did not tell the investor that, in June 2018, TSMB's bank account at HomeStreet Bank
21 contained about \$54,000 of the investor's funds, or that there were insufficient funds remaining to close on
22 the purchase of the properties.

1 40. Between about June 1, 2018 and October 19, 2018, Hills used the remaining \$54,000 of the
2 investor's investment funds for purposes other than the investment, including TSMB business expenses such
3 as rent, utilities, and marketing. Hills also used the funds on travel, restaurants, and rent for Hills's personal
4 residence.

5 **Registration Status**

6 41. The Sound Mortgage Brokers, LLC is not currently registered as a broker-dealer in the state
7 of Washington and has not previously been so registered.

8 42. Rochester 1-8, LLC is not currently registered to sell its securities in the state of Washington
9 and has not previously been so registered, nor has it filed a claim of exemption from registration

10 43. Bruce Phillip Hills, a/k/a Phil Hills, is not currently registered as a securities salesperson or
11 broker-dealer in the state of Washington and has not previously been so registered.

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

13 **CONCLUSIONS OF LAW**

14 1. The offer and sale of the LLC interests as described above constitutes the offer and sale of a
15 security as defined in RCW 21.20.005(14) and RCW 21.20.005(17).

16 2. The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil
17 Hills, have each violated RCW 21.20.140 by offering and selling securities for which no registration is on
18 file with the Securities Administrator.

19 3. The Sound Mortgage Brokers, LLC and Bruce Phillip Hills, a/k/a Phil Hills, have each
20 violated RCW 21.20.040 by offering and selling securities while not being registered as a securities
21 salesperson or broker-dealer in the state of Washington.

22 4. The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil
23 Hills, have each violated RCW 21.20.010 by making untrue statements of material fact or omitting to state

1 material facts necessary to make the statements made, in light of the circumstances in which they were made,
2 not misleading.

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

4 **CONSENT ORDER**

5 IT IS AGREED AND ORDERED that Respondents The Sound Mortgage Brokers, LLC; Rochester
6 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil Hills, and their agents and employees, shall each cease and
7 desist from violating RCW 21.20.140, the securities registration section of the Securities Act of Washington.

8 IT IS FURTHER AGREED AND ORDERED that Respondents The Sound Mortgage Brokers, LLC
9 and Bruce Phillip Hills, a/k/a Phil Hills, and their agents and employees, shall each cease and desist from
10 violating RCW 21.20.040, the securities salesperson and broker-dealer registration section of the Securities
11 Act of Washington.

12 IT IS FURTHER AGREED AND ORDERED that Respondents The Sound Mortgage Brokers, LLC;
13 Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil Hills, and their agents and employees, shall each
14 cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

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

16 IT IS FURTHER AGREED that Respondents The Sound Mortgage Brokers, LLC; Rochester 1-8,
17 LLC; and Bruce Phillip Hills, a/k/a Phil Hills, entered into this Consent Order freely and voluntarily and with
18 a full understanding of its terms and significance.

19 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents The Sound Mortgage
20 Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil Hills, waive their right to a hearing
21 and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

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

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Signed this 4th day of September 2020.

Signed by:

Signed by:
The Sound Mortgage Brokers, LLC

/s/
Bruce Phillip Hills, Individually

/s/
Bruce Phillip Hills
Managing Member

Signed by:
Rochester 1-8, LLC

/s/
Bruce Phillip Hills
Managing Member

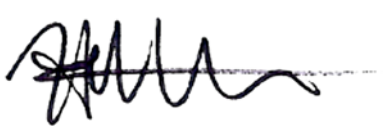
SIGNED and ENTERED this 15th day of September 2020.



William M. Beatty
Securities Administrator

Approved by:

Presented by:



CONSENT ORDER

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
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Suzanne Sarason
Chief of Enforcement

Holly Mack-Kretzler
Financial Legal Examiner

Reviewed by:



Brian Guerard
Financial Legal Examiner Supervisor