

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

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

6 Ronald Hannes;
Hannes Financial Services Inc.,

7 Respondents

Order No.: S-20-2873-20-SC01

8 **STATEMENT OF CHARGES AND**
NOTICE OF INTENT TO ENTER ORDER
TO CEASE AND DESIST,
DENY FUTURE REGISTRATIONS,
IMPOSE FINES, AND CHARGE COSTS

9 THE STATE OF WASHINGTON TO:

Ronald Hannes (CRD #1462241)
Hannes Financial Services, Inc.

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the State of Washington has reason to believe
12 that Respondents Ronald Hannes and Hannes Financial Services Inc. have each violated the Securities Act of
13 Washington. The Securities Administrator believes those violations justify the denial of any future registration
14 with the Securities Division by Respondents Ronald Hannes and Hannes Financial Services Inc., or any entity
15 under Ronald Hannes's control, pursuant to RCW 21.20.110(1), and the entry of an order against Respondent
16 Ronald Hannes to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and
to impose a fine pursuant to RCW 21.20.395. The Securities Administrator finds as follows:

17 **TENTATIVE FINDINGS OF FACT**

18 **Respondent**

19 1. Ronald Hannes ("Hannes") is a Spokane resident and former securities salesperson with
20 Woodbury Financial Services, Inc. Hannes has been registered in the financial industry since approximately
21 January 1994. Hannes's Central Registration Depository number is 1462241.

22 2. Hannes Financial Services, Inc. ("HFS") is a Washington for-profit corporation, formed on
23 June 14, 1995. Hannes did business through HFS.

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Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **Related Parties**

2 3. Woodbury Financial Services, Inc. (“Woodbury”) is a registered broker-dealer based in
3 Oakdale, Minnesota. Hannes was a securities salesperson with Woodbury and its predecessor firms from
4 January 1994 to December 2019.

5 **Nature of the Conduct**

6 **Overview**

7 4. From approximately 2003 to 2019, Hannes engaged in an extensive, long-term fraud against
8 his Woodbury clients by convincing them to write checks to HFS for off-the-books investments, then using
9 the money for unknown purposes. In total, Hannes defrauded at least nineteen clients, with total losses
10 exceeding \$2.9 million.

11 **Nature of the Fraud**

12 5. Hannes generally approached existing clients and misrepresented to them that he had an
13 opportunity for a fixed-rate investment in either a bond, or in a unit investment trust¹ which functioned
14 similarly to a bond. Hannes did not provide investors with any offering documents for to the investments,
15 such as a prospectus, a contract, or financial statements for the companies, and in some cases did not even
16 identify the company in which the client would be investing. Hannes most commonly stated that the
17 investments offered a return of 5% to 7%, and could be rolled over into new investments at the end of their
18 fixed terms, which varied but were generally in the two-to-five-year range. Most investors interviewed by the
19 Division indicated that they rolled over their investments rather than requesting withdrawals.

20 6. Hannes did not execute the transactions through Woodbury, did not record them on
21 Woodbury’s books and records, and did not otherwise inform Woodbury of the transactions. Rather than
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23 ¹ Unit investment trusts (“UITs”) are similar to mutual funds in that they hold a variety of assets in a particular category, but unlike mutual funds, UITs have a specified end date.

1 having the clients make out the checks to the company in which they were investing (as is standard industry
2 practice), Hannes had the clients write the checks to HFS, whose bank accounts he controlled as the owner of
3 the company. Woodbury has represented that they were unaware of the deposits because they were deposited
4 into an HFS account to which Woodbury did not have access.

5 7. In November 2019, P.M.-1 and P.M.-2, a married couple and longtime Hannes clients, moved
6 their investment portfolios to a new advisor and realized that the checks they had written to HFS were not
7 reflected anywhere on their official Woodbury statements. After P.M.-1 and P.M.-2 inquired with Woodbury
8 about these checks, Woodbury asked Hannes to provide evidence of how the money had been used. In
9 response, Hannes falsely told Woodbury that P.M.-1 and P.M.-2 had written the checks to HFS to purchase
10 additional life insurance from The Hartford (“Hartford”), a Connecticut-based insurance company, and that
11 he had subsequently written the checks to Hartford from HFS’s bank account. Hannes provided Woodbury
12 with copies of checks from 2012 to 2019 and a life insurance application, both of which he claimed had been
13 sent to Hartford.

14 8. For multiple reasons, it appears likely that Hannes falsified these checks. First, the numbers on
15 the checks which Hannes provided to Woodbury—and had supposedly been sending to Hartford from 2012
16 to 2019—correspond to two batches of checks which Hannes had ordered from a Spokane-based printer within
17 the preceding several weeks. Second, Hannes provided only the front of the checks, not the back. Payment
18 information, such as the number of the bank account into which a check was deposited, appears on the back
19 of the check; Hannes could not provide any information which would show that the checks were actually
20 deposited. Third, Woodbury subsequently inquired with Hartford and learned that they had no record of
21 receiving either the checks or the life insurance application. Finally, P.M.-1 and P.M.-2 have also indicated
22 in interviews with the Division that they had no need for additional life insurance, had never received the
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1 relevant paperwork from Hartford, and had understood that they were writing checks to HFS to invest in the
2 above-described bonds.

3 9. Several of Hannes’s former clients have provided the Securities Division with account
4 statements which purportedly reflect the value of the bonds or UITs they invested in. To the Securities
5 Division’s knowledge, no Hannes client ever received these statements from the companies, only from Hannes
6 himself. Some of the account statements include company names, most of which are generic and difficult-to-
7 research names such as “Alliance Capital” or “First Principal.” However, some statements include less-
8 generic company names, such as “Wells/Scudder” or “Scudder/McDaniel.” The Securities Division has been
9 unable to locate any regulatory filings, or Internet or corporate presence more generally, by any company
10 bearing those names.

11 10. Woodbury terminated Hannes on December 13, 2019, and began contacting clients to learn
12 whether anyone else had similarly written checks to HFS. Based on Woodbury’s investigation and subsequent
13 interviews by DFI, it appears that Hannes solicited no fewer than nineteen people to invest in bonds or UITs
14 similar to those described above, with the combined investment amount exceeding \$2.9 million. Woodbury
15 has made payments to many of the clients who wrote checks to HFS, but due to the length of Hannes’s scheme,
16 many clients have not been able to obtain complete records of the payments they made to Hannes. Hannes’s
17 use of client funds is currently unknown, but to the Securities Division’s knowledge, he has not personally
18 made any repayments to investors.

19 **FINRA Bar**

20 11. In a January 2020 letter, the Financial Industry Regulatory Authority (“FINRA”) requested
21 that Hannes provide relevant documents. Hannes refused to cooperate with FINRA’s investigation, and agreed
22 through a consent order to be permanently barred from association with any FINRA member rather than
23 providing the requested documents.

1 **Registration Status**

2 12. None of the bonds or UITs sold by Hannes are registered as securities in the State of
3 Washington, or with any other regulator.

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

5 **CONCLUSIONS OF LAW**

6 1. The offer and/or sale of the bond and unit investment trust investments, as described above,
7 constitute the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).

8 2. The Respondents have each violated RCW 21.20.140, because, as set forth in the Tentative
9 Findings of Fact, he offered and sold securities for which no registration is on file with the Securities
10 Administrator.

11 3. The Respondents have violated RCW 21.20.010(1) because, as set forth in the Tentative
12 Findings of Fact, they employed a scheme to defraud Hannes’s clients through fictitious investments.

13 4. The Respondents have each violated RCW 21.20.010(2), because, as set forth in the Tentative
14 Findings of Fact, the Respondents made untrue statements of material fact or omitted to state material facts
15 necessary to make the statements made, in light of the circumstances in which they were made, not misleading.

16 5. The FINRA consent order described in the Tentative Findings of Fact is an order entered after
17 notice and opportunity for hearing by a self-regulatory organization expelling Hannes from membership in a
18 self-regulatory organization.

19 6. Hannes’s sale of investments which were not recorded on the books and records of his broker-
20 dealer constituted a dishonest and unethical business practice pursuant to WAC 460-22B-090(2).

21 7. Hannes’s falsification of checks during Woodbury’s internal investigation constituted a
22 dishonest and unethical business practice pursuant to WAC 460-22B-090.

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

2 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
3 Administrator intends to order, pursuant to RCW 21.20.110(1)(e)(iii), that:

- 4 1. Any future applications for registration by Ronald Hannes as a securities salesperson or investment
5 adviser representative shall be denied, and
- 6 2. Any future applications for registration, by any person or entity under Ronald Hannes’s actual or
7 effective control, as a broker-dealer or investment adviser, shall be denied.

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

9 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
10 Administrator intends to order, pursuant to RCW 21.20.390(1), that Respondents Ron Hannes and Hannes
11 Financial Services Inc., and their agents and employees, each shall cease and desist from violations of RCW
12 21.20.010 and RCW 21.20.140.

13 **NOTICE OF INTENT TO IMPOSE FINES**

14 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,
15 the Securities Administrator intends to order that Respondents Ron Hannes and Hannes Financial Services,
16 Inc. shall be jointly and severally liable for and shall pay a fine of \$100,000.

17 **NOTICE OF INTENT TO CHARGE COSTS**

18 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
19 the Securities Administrator intends to order that Respondents Ron Hannes and Hannes Financial Services
20 shall be liable for and shall pay the costs, fees, and other expenses incurred in the administrative investigation
21 and hearing of this matter, in an amount not less than \$5,000.

22 **AUTHORITY AND PROCEDURE**

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

8 Signed and Entered this 25th day of March, 2020.

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William M. Beatty
Securities Administrator

14 Approved by:

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Suzanne Sarason
Chief of Enforcement

Presented by:

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Adam N. Yeaton
Financial Legal Examiner

21 Reviewed by:

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Jack McClellan
Financial Legal Examiner Supervisor

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