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**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:

PACIFIC WEST SECURITIES, INC. and
LORRETTA N. ELDERKIN, President of
Pacific West Securities, Inc.,

Respondents.

SDO - 005 - 01

Statement of Charges and Notice of Intent to Enter an
Order to Cease and Desist, Suspend and/or Revoke
Registrations, Order Restitution, and Impose Fines

Case No. 00 - 12 - 504

THE STATE OF WASHINGTON TO:

Pacific West Securities, Inc.
Loretta N. Elderkin, President
One Renton Place, Suite 700
555 South Renton Village Place
Renton, Washington 98055

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STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Pacific West Securities, Inc. and Loretta N. Elderkin, have each failed to reasonably supervise a registered salesperson and knowingly violated the Securities Act of Washington by offering and/or selling unregistered non-exempt securities, by making material misrepresentations and omissions in the course of those offers and/or sales, and by recommending unsuitable investments to customers. The Securities Administrator believes that these violations justify the entry of an order against each suspending or revoking Respondents' securities registrations and imposing fines pursuant to RCW 21.20.110. Furthermore, these violations justify the entry of an order against each to cease and desist from such violations, ordering restitution, and imposing fines pursuant to RCW 21.20.390.

The Securities Administrator makes the following Tentative Findings of Fact:

Statement of Charges and Notice of Intent to Enter an
Order to Cease and Desist, Suspend and/or Revoke
Registrations, Order Restitution, and Impose Fines

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Department of Financial Institutions
Securities Division
PO Box 9033
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TENTATIVE FINDINGS OF FACT

I. RESPONDENTS

1. Pacific West Securities, Inc. ("Pacific West") is an active Washington for-profit corporation authorized to do business October 25, 1972. Pacific West has been continuously registered with the Washington Securities Division as a securities broker-dealer since 1973. Pacific West employs more than 150 registered representatives, the majority of whom work in off-site branch or unregistered offices. Pacific West's main office is located at 555 South Renton Village Place, Suite 700, in Renton.

2. Lorretta N. Elderkin ("Elderkin") is the President of Pacific West, and has been continuously registered with the Washington Securities Division as a securities salesperson since 1983. Elderkin is the designated Compliance Official of Pacific West responsible for supervising registered representatives.

II. NATURE OF THE VIOLATIONS

A. Failure to Supervise

3. In January 1992, Nu West, Inc. ("Nu West"), a Washington corporation, began the offer and sale of securities in the form of fractional interests in promissory notes secured by deeds-of-trust (the "Nu West securities"). An investigation by the Securities Division revealed that the Nu West securities were not registered or exempt from registration, that many of the promissory notes and deeds-of-trust had been forged, and that the written documents describing the properties contained, in many cases, false information. On October 25, 2000, the Securities Division entered a Summary Order to Cease and Desist against Nu West, SDO 87-00. In November 2000, Nu West defaulted on its interest payments to investors and the firm is currently in receivership. It appears that more than 250 investors are facing losses of more than \$50 million, including 15 Pacific West customers who have lost more than \$2 million.

4. On March 31, 1995, Pacific West hired Dorsey E. Rowan, Jr. ("Rowan"), a licensed securities salesperson, as a registered representative. During an initial meeting with Respondent Elderkin Rowan

1 disclosed orally that he was planning to offer and sell Nu West notes and deeds-of-trust. Elderkin
2 understood that Rowan would be receiving a commission from Nu West for any sales he made. On April
3 8, 1999, pursuant to Pacific West's registered representative contract, Rowan disclosed to Respondents in
4 writing that he was offering and selling Nu West securities pursuant to a claimed exemption.

5 5. Rowan's disclosure required a supervisory response from Respondents under the Securities Act of
6 Washington, the NASD Conduct Rules, and Pacific West's own 1995 policy manual. Respondents had
7 two options available to them: they could clear the Nu West securities, approve the transactions, carry the
8 Nu West securities on their books and records, and supervise Rowan's participation in the transactions; or
9 they could disapprove, and effectively prohibit, Rowan's participation in the Nu West transactions.

10 6. For close to ten months Respondents took no formal action in response to Rowan's disclosures.
11 When they did act, on February 5, 1996, Respondents authorized Rowan's Nu West transactions, and
12 required that Rowan provide his clients with a form disclaiming any relationship between Pacific West
13 and the Nu West securities. Respondents did not conduct a due diligence review of the Nu West
14 securities; did not take any action to determine whether the securities were registered or exempt from
15 registration; did not ensure that the required disclosures were being made; failed to ensure that information
16 concerning client suitability would be obtained and heeded in recommending Nu West securities to Pacific
17 West and other clients; and failed to conduct any audits of Rowan's Nu West transactions.

18 7. Respondents' 1995 policy manual prohibited registered representatives from selling note and deed-
19 of-trust investments unless Respondents reviewed the product and authorized the participation.
20 Respondents required this review and authorization because they believed that note and deed-of-trust
21 programs were highly suspect. Even though Respondents were aware of the potential for problems with
22 the Nu West deed-of-trust program, Respondents did not review the Nu West securities before authorizing
23 Rowan's participation in the offer and sale of those securities.
24

1 8. On October 11, 1996, October 17, 1997, August 31, 1998, and November 18, 1999, Rowan
2 disclosed his continuing participation in the offer and sale of Nu West securities. Respondents did not
3 take any supervisory action in response to these disclosures.

4 9. On January 21, 2000, Rowan attended a seminar that addressed issues relating to private securities
5 transactions. After the seminar, Rowan made another verbal disclosure to Respondents concerning his
6 offers and sales of Nu West securities. On March 24, 2000, nearly five years after Rowan first disclosed
7 his offers and sales of Nu West securities, Respondents requested that Rowan provide them with evidence
8 that the Nu West deed-of-trust program did not involve securities. As Rowan was not able to provide that
9 information, on April 13, 2000, Respondents required Rowan to terminate his relationship with Nu West.

10 B. Offer and Sale of Unregistered Securities

11 10. Respondents, through their agent, offered and sold Nu West's unregistered, non-exempt
12 securities to more than 30 Washington residents. As a result, it now appears that 15 Pacific West clients
13 have lost more than \$2 million.

14 C. Misrepresentations and Omissions

15 11. Respondents, through their agent, misrepresented the safety of the Nu West securities and failed
16 to provide clients with the required disclosure documents relating to the Nu West securities. Rowan
17 described the Nu West securities as essentially risk-free, claiming that the investments would be secured
18 by a first-position deed-of-trust. In fact, many of the deeds-of-trust had been forged and were never
19 recorded. Rowan also failed to provide investors with disclosure documents, including financial
20 statements, title reports, property appraisals, and other material information.

21 D. Suitability

22 12. Respondents, through their agent, failed to make reasonable efforts to obtain information
23 concerning customers' investment goals and objectives, investment experience, risk tolerance, tax status,
24

1 other securities holdings, or financial situation and needs. As a result, Respondents made unsuitable
2 recommendations to clients to invest in Nu West securities. In one case, a client informed Rowan that she
3 was an extremely risk-averse and conservative investor whose primary investment objective was
4 preservation of capital. Rowan recommended that she liquidate her holdings, which primarily consisted of
5 tax-free bond funds, and invest in Nu West securities. This investor has apparently lost \$260,000
6 investing in Nu West securities.

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

8 **CONCLUSIONS OF LAW**

9 1. Respondents have failed to reasonably supervise a salesperson in their employ. Pursuant to RCW
10 21.20.110(1)(j), these failures constitute grounds, under RCW 21.20.110(1), for the Department to impose
11 fines and suspend and/or revoke Respondents' securities registrations.

12 2. The offer and/or sale of Nu West securities constitutes the offer and/or sale of securities as defined
13 in RCW 21.20.005 (10) and (12).

14 3. Respondents, through their agent, have knowingly violated RCW 21.20.140 by offering and/or
15 selling unregistered non-exempt securities in the State of Washington.

16 4. Respondents, through their agent, have knowingly violated RCW 21.20.010 by making untrue
17 statements of material fact and by omitting to state material facts necessary in order to make the
18 statements made, in light of the circumstances under which they were made, not misleading.

19 5. Respondents, through their agent, have knowingly violated RCW 21.20.702 by failing to make
20 reasonable efforts to obtain information from clients necessary to make suitable recommendations, and by
21 recommending the purchase and sale of securities to his customers without reasonable grounds to believe
22 that such transactions were suitable for those customers.
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NOTICE OF INTENT TO SUSPEND REGISTRATION

Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent Pacific West's broker-dealer registration be suspended.

NOTICE OF INTENT TO REVOKE REGISTRATION

Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent Elderkin's securities salesperson registration be permanently revoked.

NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST

Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents and their agents, employees, successors, and assigns shall each permanently cease and desist from violations of RCW 21.20.140, RCW 21.20.010, and RCW 21.20.702.

NOTICE OF INTENT TO ORDER AFFIRMATIVE RELIEF

Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents shall be jointly and severally liable for, and shall pay, restitution to injured investors.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.110(3) and RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents shall be jointly and severally liable for, and shall pay, a fine of Eighty Thousand Dollars (\$80,000).

AUTHORITY AND PROCEDURE

This STATEMENT OF CHARGES AND NOTICE is entered pursuant to the provisions of RCW 21.20.110 and RCW 21.20.390 and is subject the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Respondents Pacific West Securities, Inc. and Lorretta N. Elderkin may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If a Respondent does not request a hearing, the Securities Administrator intends to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final, and enter a permanent cease and desist order against that Respondent imposing the license suspension or revocation, restitution, and fines described above.

CONTINUING INVESTIGATION

The Securities Division is continuing to investigate the practices of the Respondents herein to determine the full extent of the violations of the Securities Act that have occurred in this matter.

DATED this 27th day of July 2001.



DEBORAH R. BORTNER
Securities Administrator

Approved by:

Presented by:

Michael E. Stevenson
Chief of Enforcement

Anthony W. Carter
Securities Examiner