

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:

STEPHEN K. BROMBACH and
INTEGRITY GROUP INSURANCE &
FINANCIAL SERVICES,

Respondents.

Order Number S-07-011-07-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL ORDER
TO CEASE AND DESIST, TO BAR
REGISTRATIONS, IMPOSE FINES, AND
CHARGE COSTS

THE STATE OF WASHINGTON TO:

Stephen K. Brombach
Integrity Group Insurance & Financial Services

On August 9, 2007, the Securities Administrator of the State of Washington issued S-07-011-07-TO01, hereinafter referred to as the Summary Order, against Stephen K. Brombach and Integrity Group Insurance & Financial Services.

The Summary Order, together with a Notice of Opportunity to Defend and Opportunity for Hearing, hereinafter referred to as "Notice of Opportunity for Hearing" and an Application for Adjudicative Hearing, hereinafter referred to as "Application for Hearing", were personally served on Stephen K. Brombach and Integrity Group Insurance & Financial Services on August 28, 2007. The Notice of Opportunity for Hearing advised Stephen K. Brombach and Integrity Group Insurance & Financial Services that a written application for an administrative hearing on the Statement of Charges must be received within twenty days from the date of receipt of the notice. Stephen K. Brombach and Integrity Group Insurance & Financial Services failed to request an administrative hearing within twenty days of receipt of the Summary Order and Notice of Opportunity for Hearing, either on the Application for Hearing provided or otherwise.

The Securities Administrator therefore will adopt as final the findings of fact and conclusions of law as set forth in the Statement of Charges.

The Securities Administrator makes the following findings of fact and conclusions of law:

ENTRY OF FINDINGS OF FACT AND CONCLUSIONS
OF LAW AND FINAL ORDER TO CEASE AND DESIST,
TO BAR REGISTRATIONS, IMPOSE FINES, AND
CHARGE COSTS

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **FINDINGS OF FACT**

2 Respondents

3 1. Stephen Kent Brombach (“Brombach”), CRD# 2004305, a Washington resident, was first
4 registered in the securities industry in 1989. From January 1999 to September 2006, Brombach was
5 employed by Hornor, Townsend & Kent and registered in Washington as a securities salesperson
6 limited to selling mutual funds and variable annuities. He was not registered to sell Real Estate
7 Investment Trusts. Brombach resides in Mill Creek, Washington.

8 2. Integrity Group Insurance & Financial Services (“Integrity Group”) is a sole
9 proprietorship first registered by Brombach with the Washington State Department of Revenue on
10 January 1, 2004. Until recently Brombach and Integrity conducted business from an office located in
11 Marysville, Washington.

12 Background

13 3. Hornor, Townsend & Kent, Inc. (“HTK”), CRD #4031, is a registered broker-dealer and
14 federally-registered investment adviser based in Pennsylvania. HTK is a broker-dealer owned by
15 Penn Mutual Life Insurance Company. On September 7, 2006, HTK terminated Brombach for selling
16 securities not approved by HTK and creating his own customer account statements. Respondent
17 Brombach is not currently registered with the Washington State Securities Division (“the Division”)
18 in any capacity.

19 4. Penn Mutual Life Insurance Company (“Penn Mutual”), the parent of HTK, provides life
20 insurance and annuity products through a network of producers. Penn Mutual appointed Brombach as
21 an insurance producer on October 22, 1998. On September 7, 2006, Penn Mutual terminated
22 Brombach for misrepresentation.

1 5. Brombach was licensed to sell insurance with the Washington State Office of the
2 Insurance Commissioner (OIC # 109771) until recently. On April 22, 2007, the Office of the
3 Insurance Commissioner issued order number D 07-125 revoking Brombach's insurance license
4 because he had shown himself to be "incompetent, and untrustworthy, and a source of injury and loss
5 to the public".

6 Nature of the Offering

7 6. On or about January 1, 2000, Respondent Brombach began offering his insurance and
8 investment clients a private real estate investment and/or a local investment fund opportunity.
9 Brombach described the program to many potential investors as a Real Estate Investment Trust
10 ("REIT"). The investment opportunities were not carried on the books of HTK or Penn Mutual.
11 From January 2000 through September 2006, at least thirteen Washington residents, most of them
12 clients of HTK and/or Penn Mutual, invested in the purported REIT program and/or the local
13 investment fund. Some of the investors were not accredited or sophisticated. The investments that
14 were made from January 2001 through September 2006 total at least \$694,750.

15 7. Brombach described the purported REIT to potential investors as a pool of investor funds
16 used to finance bridge loans on real estate projects. Brombach further described the REIT as a
17 relatively liquid, low-risk investment. Brombach offered potential investors specific interest rates
18 ranging from 5.6% to 8.6% and the option of receiving monthly interest payments.

19 8. Brombach also offered at least one investor the opportunity to invest in a "local
20 investment fund". He described this as an interest bearing account into which local business people
21 pool their funds and receive a specific return. Brombach told potential investors that the local
22 investment fund was a relatively liquid low-risk investment.

1 9. Investors were provided with REIT and/or local investment fund account statements on
2 Integrity Group letterhead after they invested. Some of these account statements included securities
3 that the investors had purchased through HTK and Penn Mutual such as specific funds in Roth IRA's
4 and 401K's and Penn Mutual variable life insurance policies. The letterhead also indicated that the
5 securities were offered through HTK and Penn Mutual.

6 10. On August 25, 2006, HTK and Penn Mutual conducted a surprise examination of
7 Respondents' office in Marysville. After initial denials, Brombach admitted to selling unregistered
8 securities and creating false account statements on Integrity letterhead to HTK and Penn Mutual
9 representatives.

10 11. Brombach continues to maintain contact with some investors. He has told at least one
11 investor that the funds are not readily available for withdrawal because the real estate is not moving as
12 quickly as he anticipated. However, he continues to reassure investors that he funds will be available
13 soon.

14 Misrepresentations and Omissions

15 12. A Real Estate Investment Trust ("REIT") is a company that manages a portfolio of real
16 estate to earn profits for shareholders. REIT's receive income from rents, interest payments on
17 mortgages, and on capital gains as buildings are sold for profit. To avoid taxation at the corporate
18 level, 75% or more the REIT's income must be from real property and 95% of its net earnings must be
19 distributed to shareholders annually. In order for a company to qualify as a REIT, it must: 1) be an
20 entity that is taxable as a corporation; 2) be managed by a board of directors or trustee; and 3) have a
21 minimum of 100 shareholders. Integrity Group and Brombach do not meet the standards to qualify as
22 a REIT. Integrity Group is not taxable as a corporation, it is a sole proprietorship. The purported
23

1 REIT is not managed by a board of directors or trustees, Brombach alone manages the investment.

2 Finally, the purported REIT does not have 100 shareholders.

3 13. Further, Integrity Group and Brombach misrepresented the investment as a pool of investor
4 funds used to finance bridge loans on real estate project. According to Brombach, he did not use the
5 funds to purchase any real estate on behalf of the purported REIT and deposited the investor's funds
6 into a bank account in his name. Further, the properties that Brombach later identified as part of the
7 REIT, his former residence and his office building in Marysville, are in his name and do not in any
8 way secure individual investments.

9 14. Integrity Group and Brombach misrepresented that the REIT and/or local investment fund
10 was being offered through HTK and/or Penn Mutual because no such investments were being carried
11 on their books. They did so by generating false account statements on Integrity Group letterhead, and
12 by including investments actually purchased through HTK and Penn Mutual on the same statements.

13 15. Integrity Group and Brombach failed to provide material information regarding the
14 company and investments including, but not limited to: financial statements; use of proceeds;
15 identification and values of property in the purported REIT; identification and value of the purported
16 local investment fund; and business background of Brombach.

17 Registration Status

18 16. Integrity Group is currently not registered to sell its securities in the State of Washington
19 and has not previously been so registered and no claim of exemption for said securities was on file
20 with the Division.

21 17. Integrity Group is currently not registered as a broker-dealer in the State of Washington
22 and has not previously been so registered.

1 18. Brombach is not currently registered as a broker-dealer or as a securities salesperson
2 authorized to sell the purported REIT investments in Washington and has not previously been so
3 registered.

4
5 Based on the foregoing Findings of Fact, the following Conclusions of Law are made:

6 **CONCLUSIONS OF LAW**

7 1. The offer and sale of the purported REIT investments or local investment funds as
8 described above constitutes the offer and sale of a security as defined in RCW 21.20.005(10) and (12).

9 2. Stephen K. Brombach violated RCW 21.20.140, by offering and selling unregistered
10 securities.

11 3. Stephen K. Brombach violated RCW 21.20.040, by offering and selling said securities
12 while not registered as broker-dealer or as a securities salesperson authorized to sell REIT investments
13 in the State of Washington.

14 4. Integrity Group Insurance & Financial Services violated RCW 21.20.140, by offering and
15 selling unregistered securities.

16 5. Integrity Group Insurance & Financial Services violated RCW 21.20.040, by offering and
17 selling said securities while not registered as a broker-dealer in the State of Washington.

18 6. The offer and/or sale of the purported REIT and/or local investment fund securities by
19 Respondents were made in violation of RCW 21.20.010 because, as set forth in the Findings of Fact,
20 Respondents made misstatements of material fact or omitted to state material facts necessary in order
21 to make the statements made, in light of circumstances under which they were made, not misleading.

22 7. Stephen K. Brombach has engaged in dishonest and unethical practices by:

23 a. As defined in WAC 460-22B-090(2), by effecting securities transactions not recorded on the regular
24 books and records of the broker-dealer which Stephen K. Brombach represented; and

1 b. As defined by WAC 460-22B-090(13), effecting transactions in, or inducing the purchase of any
2 security by means of any manipulative, deceptive or fraudulent device, practice, plan, program, design
3 or contrivance.

4 8. The violations of RCW 21.20.010, RCW 21.20.140, and RCW 21.20.040, and the willful
5 dishonest and unethical conduct, provides grounds, pursuant to RCW 21.20.110(1), to bar
6 Respondents' future securities registrations, and for the imposition of fines and costs against both
7 Respondents.

8 **FINAL ORDER**

9 It is hereby ORDERED that the Respondents, Stephen K. Brombach and Integrity Group Insurance
10 & Financial Services, shall each cease and desist from offering and/or selling securities in any manner
11 in violation of RCW 21.20.140, the section of the Securities Act of Washington requiring registration.

12 It is further ORDERED that Respondents, Stephen K. Brombach and Integrity Group Insurance &
13 Financial Services, shall each cease and desist from violation of RCW 21.20.010, the anti-fraud section
14 of the Securities Act.

15 It is further ORDERED that the Respondents, Stephen K. Brombach and Integrity Group Insurance
16 & Financial Services, shall each cease and desist from violation of RCW 21.20.040, the broker-dealer
17 and securities salesperson registration section of the Securities Act.

18 It is further ORDERED that the Respondents, Stephen K. Brombach and Integrity Group Insurance
19 & Financial Services, shall be permanently barred from any future securities registrations as an
20 investment adviser, broker-dealer, investment adviser representative, or securities salesperson.

21 It is further ORDERED that Respondent, Stephen K. Brombach, shall be liable for and shall pay a
22 fine of \$50,000.

1 **AUTHORITY AND PROCEDURE**

2 This Final Order is entered pursuant to the provisions of RCW 21.20.110 and 21.20.390, and is
3 subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Respondents have the right to
4 petition the superior court for judicial review of this agency action under the provisions of chapter 34.05
5 RCW. For the requirements for filing a Petition for Judicial Review, see RCW 34.05.510 and sections
6 following. Pursuant to 21.20.395, a certified copy of this order may be filed in Superior Court. If so
7 filed, the clerk shall treat the order in the same manner as a Superior Court judgment as to the fine,
8 and the fine may be recorded, enforced, or satisfied in like manner.

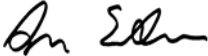
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10 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE**

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12 DATED and ENTERED this 20th day of September, 2007.

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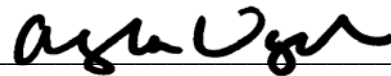
15 _____
MICHAEL E. STEVENSON
Securities Administrator

16 Approved for entry by:

17 

18 _____
SUZANNE E. SARASON
Chief of Compliance & Examinations

19 Presented by:

20 

21 _____
ANGELA R. VOGEL
Enforcement Attorney