

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

4 IN THE MATTER OF DETERMINING) Order No.: S-09-231-14-SC01
5 Whether there has been a violation of the)
6 Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
7) TO ENTER ORDER TO CEASE AND DESIST, TO
8 SCI Funding Group, LLC; Scott Campbell; John) IMPOSE FINES AND TO CHARGE COSTS
9 Tate,)
10)
11 Respondents.)

12 **THE STATE OF WASHINGTON TO:** **SCI Funding Group, LLC; Scott Campbell; John Tate.**

13 **STATEMENT OF CHARGES**

14 Please take notice that the Securities Administrator of the state of Washington has reason to believe that
15 Respondents, SCI Funding Group, LLC; Scott Campbell; and John Tate, have each violated the Securities Act of
16 Washington and that their violations justify the entry of an order of the Securities Administrator under RCW
17 21.20.390 against each to cease and desist from such violations and to charge costs, and under RCW 21.20.395 to
18 impose a fine. The Securities Administrator finds as follow:

19 **TENTATIVE FINDINGS OF FACT**

20 Respondents

- 21 1. SCI Funding Group, LLC (“SCIFG”) is an inactive Washington limited liability company with its former
22 principal place of business in Bellevue, Washington. During the relevant time period, SCIFG was in the business of
23 financing and servicing construction loans.
- 24 2. Scott Campbell (“Campbell”) is a Washington resident and the sole member of SCIFG.
- 25 3. John Tate (“Tate”) is a Washington resident and was an independent contractor working on behalf of SCIFG.
Respondents falsely identified Tate as a member of SCIFG in documents provided to investors and loan purchasers.

Other Persons

4. Roger O’Connell (“O’Connell”) controls multiple entities that purchased interests in loans from SCIFG.
5. Bennett Williams (“Williams”) controls multiple entities that purchased interests in loans from SCIFG.

Nature of the Offering

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6. Between 2004 and 2008, Respondents offered and sold to at least 6 Washington investors over \$1 million of investments linked to the profits from loans financed and serviced by SCIFG.

Background of SCIFG’s Construction Loan Business

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7. From 1997 to 2004, Tate worked as a vice president for Partners Mortgage Corporation (“PMC”). While working for PMC, Tate became acquainted with mortgage brokers, as well as with individuals who were in the business of purchasing loans – namely, O’Connell and Williams. PMC was the subject of regulatory and legal actions, including an enforcement action entered by the Securities Administrator for violations of the Securities Act of Washington (Case No. S-04-245). PMC also filed for bankruptcy in 2003 and its investors suffered significant losses.

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8. In 2004, Campbell hired Tate as an independent contractor to turn SCIFG into a business that originated, sold, and serviced construction loans. Campbell and Tate agreed to equally split the profits from loan servicing fees and interest paid to SCIFG.

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9. Essentially, SCIFG’s business activities involved finding borrowers, originating borrowers’ loans, and selling the loans to entities controlled by O’Connell and Williams. Because O’Connell and Williams were the loans’ primary funding source, SCIFG originated loans only after O’Connell and Williams approved the borrower, approved the loan terms, and agreed to purchase a majority interest in the loan from SCIFG.

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10. Upon acceptance of the loan terms, a borrower typically assigned SCIFG the entire interest in a first position deed of trust. At that time, SCIFG typically completed the sale of the loan and assigned a percentage of its deed of trust position to each of various entities controlled by O’Connell and Williams. Often, SCIFG retained no interest in the deed of trust. Still, SCIFG retained an interest in the loan fees, points paid at loan origination, and a portion of the borrower’s interest payments.

Offer and Sale of Investments

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11. In some instances, O’Connell and Williams funded only a portion of a loan while SCIFG funded the remainder. In such cases, borrowers still assigned SCIFG the entire interest in a first position deed of trust. However,

1 SCIFG then reassigned a portion of the deed of trust to itself in addition to the O'Connell and Williams entities. It was
2 in these cases that Respondents sought funds from investors.

3 12. To find investors, Tate and Campbell called on their friends and family. At least 6 Washingtonians
4 collectively invested over \$1 million with SCIFG.

5 13. To solicit investment in SCIFG, Respondents offered prospective investors a 10.25% return on investments
6 linked to the construction loans that SCIFG financed and serviced. When soliciting investors, Respondents created
7 and distributed a document that briefly identified the terms of the investment, the property securing the construction
8 loan, and the terms of the loan agreement. Respondents also told investors that they would share in profits from the
9 loans. SCIFG promised to pay investors as borrowers made loan payments. Typically, such payments were scheduled
10 monthly, with a large balloon payment at the end of a one- or two-year financing period. To evidence the investment,
11 Respondents initially provided an investor with a "Loan Pledge and Servicing Agreement." However, Respondents
12 also periodically rolled over an investor's proceeds into another investment without giving the investor additional
13 documentation.

14 14. In addition to pledging a portion of loan profits, Respondents falsely told at least four investors that their
15 investments would be secured by deeds of trust or real property. Tate also represented to at least two investors that the
16 investment had very little risk or was safe. Tate further represented to at least one investor that, in the worst case, the
17 investor would be second in line to collect a return on his investment. Contrary to Respondents' representations, these
18 investors' funds remained unsecured.

19 15. In 2009, SCIFG became inactive. By that time, many of SCIFG's borrowers stopped making loan payments.
20 At this stage, SCIFG typically reconveyed its deed of trust position to the borrower or reassigned its deed of trust
21 position to another O'Connell and Williams entity. This reassignment facilitated a trustee's sale of the borrower's
22 property. Despite the trustee's sales and reconveyances, SCIFG failed to repay at least 6 investors.

23 Misrepresentations and Omissions

24 16. Respondents failed to provide material information to investors including information concerning SCIFG's
25 financial condition, the nature and value of SCIFG's debt and assets, the registration status of SCIFG's securities and

salespersons, and risks associated with the investment.

17. Respondents failed to disclose to prospective investors John Tate's former affiliation with Partners Mortgage Corporation and the regulatory and legal actions taken against Partners Mortgage Corporation.

18. Respondents misrepresented the status of John Tate as a member of SCIFG.

19. Respondents misled some investors by telling them that their investments would be secured by deeds of trust or real property, as described in paragraph 14 above.

20. John Tate's worst case scenario and risk representations, as described in paragraph 14 above, were misleading. Tate failed to provide a reasonable basis for the representations.

Registration Status

21. Respondent, SCI Funding Group, LLC, is not currently registered to sell its securities in the state of Washington and has not previously been so registered. There is no notification of exemption on file with the state of Washington.

22. Respondent, Scott Campbell, is not registered as a securities salesperson or broker-dealer in the state of Washington and has not previously been so registered.

23. Respondent, John Tate, is not registered as a securities salesperson or broker-dealer in the state of Washington and has not previously been so registered.

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

CONCLUSIONS OF LAW

1. The offer or sale of investments linked to loan financing and servicing profits as described above constitute the offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).

2. Scott Campbell violated RCW 21.20.040 by offering and/or selling said securities while not registered as a securities salesperson or broker-dealer in the state of Washington.

3. John Tate violated RCW 21.20.040 by offering and/or selling said securities while not registered as a securities salesperson or broker-dealer in the state of Washington.

1 4. The offer and/or sale of said securities is in violation of RCW 21.20.140 because no registration for such an
2 offer and/or sale is on file with the Securities Administrator, state of Washington.

3 5. The offer and/or sale of said securities were in violation of RCW 21.20.010 because Respondents made
4 untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in
5 the light of the circumstances under which they were made, not misleading.

6 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

7 Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
8 the Securities Administrator intends to order that Respondents, SCI Funding Group, LLC; Scott Campbell; and John
9 Tate, each shall cease and desist from violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

10 **NOTICE OF INTENT TO IMPOSE FINES**

11 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law,
12 the Securities Administrator intends to order that:

- 13 a. Scott Campbell shall be liable for and shall pay a fine of \$10,000.
14 b. John Tate shall be liable for and shall pay a fine of \$10,000.

15 **NOTICE OF INTENT TO CHARGE COSTS**

16 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law, the
17 Securities Administrator intends to order that:

- 18 a. Scott Campbell shall be liable for and shall pay investigative costs of at least \$5,000.
19 b. John Tate shall be liable for and shall pay investigative costs of at least \$5,000.

20 **AUTHORITY AND PROCEDURE**

21 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the
22 provisions of Chapter 34.05 RCW. The Respondents, SCI Funding Group, LLC; Scott Campbell; and John Tate, may
23 each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
24 OPPORTUNITY FOR HEARING accompanying this Order. If a respondent does not make a hearing request in the
25 time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of

1 Law as final and to enter a permanent order to cease and desist as to that respondent, to impose any fines sought
2 against that respondent, and to charge any costs sought against that respondent.

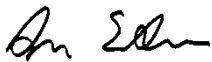
3 Signed and Entered this 28th day of February 2014.

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8 William M. Beatty
Securities Administrator

9 Approved by:

Presented by:

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13 Suzanne Sarason
Chief of Enforcement

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13 Drew Stillman
Financial Legal Examiner

14 Reviewed by:

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17 Jack McClellan
Financial Legal Examiner Supervisor