

1
2
3
4
5
6

**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

7
8
9
10
11
12
13

IN THE MATTER OF DETERMINING) Order No.: S-14-1592-15-CO01
whether there has been a violation of the)
Securities Act of Washington by:)
John Charles Hanson ,) CONSENT ORDER
Respondent)

14

INTRODUCTION

15
16
17
18
19
20
21
22

On August 24, 2015, the Securities Administrator of the Securities Division of the Department of Financial Institutions (“Securities Division”) issued a Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, To Deny Future Registrations, To Impose Fines, and To Charge Costs, Order No. S-14-1592-15-SC01 (“Statement of Charges”), against Respondent John Charles Hanson. Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and Respondent John Charles Hanson do hereby enter into this CONSENT ORDER in settlement of the matters set forth in the Statement of Charges and as alleged herein. Respondent John Charles Hanson neither admits nor denies the Findings of Fact and Conclusions of Law as stated below.

23

FINDINGS OF FACT

24

I.

25

Respondent

1. John Charles Hanson is a Washington resident. Hanson was a former registered representative and investment adviser representative at Northwestern Mutual Investment Services, LLC (“NWMIS”) from September 2004 to September 2014, when he resigned after NWMIS initiated an investigation into the allegations that are the subject of this Statement of Charges. Hanson’s Central Registration Depository number is 2420584. In addition, Hanson was licensed as an insurance agent or producer in Washington beginning in 2007 (WAOIC #129057) and sold insurance products while at NWMIS. On July 29, 2015, the Washington Office of the Insurance Commissioner issued an Order Revoking License, Order No. 15-0177, that revoked Hanson’s insurance producer license effective August 7, 2015, subject to Hanson’s right to contest the order in an administrative hearing.

2. Hanson was registered with the Washington State Securities Division (“Securities Division”) as an

II.

Respondent’s Registration Status

2. Hanson was registered with the Washington State Securities Division (“Securities Division”) as an

1 investment adviser representative and securities salesperson at NWMIS from September 2004 until September 2014.
2 Prior to this, Hanson was registered with the Securities Division as a securities salesperson from February 1996 to
3 May 2004, and again from June 2004 to September 2004, at various other firms. Hanson was also registered with the
4 Securities Division as an investment adviser representative from June to September 2004 at another firm.

5 III.

6 Nature of the Conduct

7 3. From 2006 until 2014, Hanson made unauthorized withdrawals from the accounts of his advisory
8 clients, took out unauthorized loans against those clients' life insurance policies, and sold fictitious investments to
9 several clients and a personal acquaintance. The amount of the unauthorized withdrawals and loans, and the fictitious
10 investments, totaled over \$2.4 million. All of the clients and investors were Washington residents. Several were
11 unaccredited investors or had little experience managing their investments. The fictitious investments, totaling at
12 least \$1.7 million, included promissory notes that Hanson told investors would be used to purchase a retiring partner's
13 book of business, as well as an investment in a non-existent real estate investment trust ("REIT"). The \$2.4 million
14 that Hanson fraudulently obtained remains unaccounted for.

15 *Unauthorized Brokerage Account Withdrawals and Insurance Policy Loans*

16 4. Beginning in 2006, Hanson made multiple unauthorized withdrawals from several investment
17 accounts held by two of his clients at NWMIS. These clients are also his family members. As their investment
18 adviser, Hanson managed their accounts on their behalf and they completely trusted him to do so for their benefit.

19 Client A

20 5. One client, Client A, had an IRA and a retail brokerage accounts at NWMIS that Hanson managed on
21 her behalf. She also had three life insurance policies as part of her NWMIS portfolio.

22 6. From 2006 to 2008, Hanson withdrew at least \$270,000 from Client A's retail brokerage and IRA
23 accounts without her authorization. Hanson's withdrawals from Client A's accounts nearly depleted these accounts.
24 Hanson made the unauthorized withdrawals by forging Client A's signature on distribution request forms. The funds
25 were wired into Client A's checking account, which Hanson had access to when Client A gave him the checkbook to
the account. From there, Hanson accessed the funds by writing checks to himself, without Client A's knowledge.
These funds are unaccounted for.

7. In addition to these unauthorized withdrawals, Hanson took out at least \$39,000 in loans against
Client A's life insurance policies without her authorization. Hanson did so by forging her signature on the policy loan
requests and on the loan checks that he deposited into Client A's bank account. Hanson then wrote checks to himself

1 from Client A's bank account without Client A's knowledge. The funds from the unauthorized policy loans are
2 unaccounted for.

3 Client B

4 8. Client B had two IRA accounts and a retail brokerage account at NWMIS. Hanson began managing
5 Client B's three NWMIS accounts after Client B's husband, who had always managed the household finances, passed
6 away. Because Hanson was a close relative, Client B entrusted him with managing her accounts and thus did not pay
7 close attention to her accounts.

8 9. Hanson solicited Client B to purchase over \$300,000 in certificate of deposits ("CDs") using the
9 funds from her investment accounts, without providing further details to Client B about the CDs. From 2008 to 2009,
10 and again in 2012, Hanson withdrew about \$365,000 from Client B's three accounts, which Client B understood
11 would be used to pay for the CDs. Hanson decided when and how much to withdraw from Client B's accounts, and
12 did so without notice to Client B. He withdrew the funds by completing the distribution request forms for Client B
13 and forging her signature on the forms.

14 10. After Client B's purported CD investment, Hanson provided her with two documents summarizing
15 the value of her portfolio. On each document, Hanson listed a product called "JPMorgan FDIC Corp Notes." Hanson
16 never purchased such a product, or any other CD, for Client B's portfolio. Instead, Hanson diverted Client B's funds
17 into his own bank account. On the distribution request forms that Hanson completed for Client B, Hanson requested
18 that the funds be wired into a bank account that he stated belonged to Client B. In fact, the bank account was
19 Hanson's own account. Hanson's unauthorized withdrawals from Client B's brokerage accounts nearly depleted all of
20 her accounts.

21 11. Hanson's unauthorized withdrawals from Client B's IRA accounts were considered early distributions
22 under the U.S. tax code. As a result, Client B incurred large tax penalties. Client B had to withdraw \$41,000 from
23 her IRA and take out a home equity loan of \$110,000 to pay the penalties.

24 *Fictitious Investments*

25 12. Beginning in 2011, Hanson solicited NWMIS clients, relatives and an acquaintance to invest in
several fictitious investments. Hanson sold promissory notes to almost all of these investors, under the guise that he
was going to use the funds to purchase his retiring partner's book of business. For one other investor, Hanson sold
her a fictitious real estate investment trust ("REIT"). Hanson conducted these sales off the books and records of
NWMIS.

Client C

13. Hanson had been Client C's investment adviser since around 2008. Though Client C is an accredited

1 investor based on her net worth, she has little knowledge about investing and relied on Hanson to manage her retail
2 brokerage account. After the financial crisis in 2008, Client C told Hanson she wanted to get out of the stock market.
3 Hanson subsequently helped her sell much of her stock portfolio.

4 14. Soon after, Hanson approached Client C and told her that he wanted to buy the advisory business of a
5 colleague of his. Hanson asked Client C to invest \$150,000 so that he could purchase the business, and told Client C
6 that he would make enough revenue from the acquired business to pay her back. Hanson did not provide Client C
7 with any other details about the proposed acquisition, including the financial state of the business or the risks of
8 investing.

9 15. In September 2010, Investor C invested \$150,000 with Hanson. Hanson issued her a promissory note
10 that matured in five years and required him to make monthly interest-only payments until maturity, at an interest rate
11 of 15% per annum. Almost immediately, Hanson was late in making interest payments.

12 16. Within a few months, Hanson approached Client C again and asked her to invest more into his
13 purported business. He continued to do so several more times over the next year, and again in November 2013.
14 Hanson eventually sold Client C eleven more promissory notes that totaled \$880,000. Client C paid for her
15 investments with cashier's checks or personal checks made payable to Hanson. With each additional investment that
16 Hanson solicited from Client C, Hanson provided Client C with little to no information about the business that he
17 purchased.

18 17. For each investment, Hanson issued to Client C a promissory note that bore an interest rate of 15%
19 per annum and matured in about three to five years. Hanson was to make monthly interest-only payments for each
20 note until the maturity date, at which time he was required to pay a balloon payment of the original principal. Hanson
21 represented to Client C that he would use the revenue he generated from the acquired business to repay her. Hanson
22 was often late on making the interest payments to Client C.

23 18. Hanson never had any agreements to purchase his colleague's books of business. All of Client C's
24 investment funds are unaccounted for. In 2014, Hanson informed Client C that he was experiencing financial and
25 legal issues, and would no longer be making any payments to her.

Client D

19 19. Client D, a retired school guidance counselor, had little investment experience. Client D's NWMIS
20 portfolio included two retail brokerage accounts and a variable annuity IRA. Client D depended primarily on income
21 from these accounts for her monthly living expenses.

22 20. Around 2011, Hanson began meeting with Client D in and out of his NWMIS office and told her
23 about a REIT that would produce a guaranteed rate of return of 9% over three years. He told Client D that he had
24 recommended the REIT to his own mother. Hanson provided no other information about the REIT to Client D,
25

1 including the name of the REIT, an explanation of what exactly a REIT was or the risks associated with such an
investment.

2 21. In August 2011, Client D made an initial investment of \$80,000 in the REIT, using funds from one of
3 her brokerage accounts. She wrote a personal check payable to Hanson. Hanson did not provide Client D with any
4 documents regarding the REIT investment, including a prospectus or any confirmation of her investment.

5 22. Over the next couple of years, Hanson continued to solicit Client D to increase her investment in the
6 REIT. Ultimately, Hanson solicited Client D to invest a total of \$292,500 in the REIT. She paid for all of her
7 investments by withdrawing funds from her brokerage accounts and annuity, and then wrote personal checks to
Hanson. As with the initial REIT investment, Hanson never provided Client D with any documents evidencing the
8 REIT.

9 23. Because Client D sold investments in her IRA to pay for the REIT, she incurred a tax liability of
10 about \$46,000 that she paid for using her own funds. Prior to her investment, Hanson did not disclose to Client D that
11 this would be a consequence of selling her IRA investments. Hanson subsequently deposited a check in Client D's
checking account for \$50,000, writing on the check that it was a "distribution," presumably from her REIT
investment.

12 24. Client D continued to receive official account statements from NWMIS, none of which listed the
13 REIT in her portfolio. Client D requested that Hanson send her NWMIS statements that included the REIT
14 investments. Beginning January 2014, Hanson created fictitious NWMIS account statements that purported to
15 evidence the REIT and mailed them the Client D. On these fictitious statements, Hanson called the REITs "NML
REIT Trust Series I" and "NML REIT Trust Series II."

16 25. Hanson never invested Client D's funds in any REITs and the REITs did not exist, as confirmed by
17 NWMIS. All of Client D's investments funds are unaccounted for.

18 Other Investors of Hanson's Fictitious Investments

19 26. From approximately February 2013 to July 2014, Hanson solicited investments from at least seven
20 other Washington residents, including his relatives, Clients A and B. Hanson was the financial adviser for most of
21 these investors. These additional investments totaled at least \$527,000. The investors paid for their investments by
writing personal checks to Hanson.

22 27. Hanson sold promissory notes to almost all of these investors. Hanson also sold an investment
23 contract to the investor who did not receive a promissory note or any other document evidencing her investment.
24 Under most of the notes, Hanson promised to pay the investors an interest rate of 15% per annum. The notes matured
in one to five years and required Hanson to make interest-only payments with a final balloon payment of the entire
25 principal at maturity.

1 28. Hanson told all of these investors that he needed the funds to buy out his colleague's book of
2 business. Hanson told these investors that the business would be sufficient to repay the investors without providing a
3 basis for this assurance.

4 29. Overall, Hanson provided little to no information to the investors about the business he was
5 purchasing. Hanson provided at least two investors with spreadsheets containing what Hanson purported to be actual
6 or projected revenue figures for the business, without providing a basis for the projections. Hanson also provided at
7 least two other investors with what he claimed were contracts evidencing his purchase of the book of business.
8 However, Hanson created these contracts himself and forged the signatures of the other parties to the purported
9 transaction, including the signature of a fictitious person that Hanson created.

10 30. Hanson recommended to one investor that she fund her \$70,000 investment by taking out a loan
11 against her NWMIS life insurance policy, which she did. This investor wanted additional reassurance should the
12 investment somehow fall through, even though Hanson disclosed no risks to her, and asked Hanson to take out a life
13 insurance policy on himself with the investor as the beneficiary. Hanson agreed to do so. After her investment,
14 Hanson provided the investor with a copy of a Certificate of Temporary Insurance from the insurance company as
15 proof that he had complied. However, unbeknownst to the investor, Hanson failed to submit additional underwriting
16 requirements to the insurance company to finalize the policy and the policy was cancelled as a result.

17 31. Hanson never had an agreement with any colleague to purchase their book of business. Hanson is
18 believed to have used all of the investors' funds for his personal expenses.

19 IV.

20 Prior Bankruptcies

21 32. In March 2010, Hanson filed a Chapter 13 voluntary bankruptcy petition that was later converted to a
22 Chapter 7 bankruptcy. Hanson received a discharge in August 2010. Hanson did not disclose this bankruptcy to at
23 least one investor.

24 33. In August 2012, Hanson filed another Chapter 13 bankruptcy petition. Hanson failed to comply with
25 the filing and meeting requirements in the bankruptcy proceeding. As a result, the bankruptcy court dismissed the
proceeding on November 9, 2012. Hanson did not disclose this bankruptcy to at least one investor.

V.

FINRA Permanent Ban

34. In September 2014, FINRA began investigating Hanson concerning the allegations that are the
subject of this Statement of Charges. Hanson did not cooperate with FINRA's investigation by refusing to provide
requested documents or testimony. To settle the matter, Hanson entered into a Letter of Acceptance, Waiver and

1 Consent (No. 2014042675001) (“AWC”) with FINRA on November 6, 2014, in which he neither admitted nor denied
2 the allegations. In the AWC, FINRA permanently barred Hanson from associating with any FINRA broker-dealer in
3 any and all capacities, including as a security salesperson.

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

5 **CONCLUSIONS OF LAW**

6 1. The offer and sale of promissory notes, the investment contract described in Paragraph 27, and the real
7 estate investment trust constitute the offer and sale of a security as defined in RCW 21.20.005(14) and (17).

8 2. John Charles Hanson violated RCW 21.20.140 because no registration for such an offer and/or sale is
9 on file with the State of Washington Securities Administrator, nor is any current claim of exemption. Such conduct is
10 grounds for the denial of Hanson’s future broker-dealer, securities salesperson, investment adviser, or investment
11 adviser representative registration applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW
12 21.20.110(4) and RCW 21.20.395, and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

13 3. In connection with the offer and/or sale of securities, John Charles Hanson violated RCW
14 21.20.010(1) and (3) by employing a device, scheme or artifice to defraud investors; and by engaging in an act,
15 practice or course of business which operated and would operate as a fraud or deceit upon on another person, by
16 selling promissory notes and an investment contract under the false pretense that he would use the investment funds to
17 purchase a book of business, by selling a fictitious real estate investment trust, and by making unauthorized
18 withdrawals from an advisory client’s account to purchase a fictitious certificate of deposit. Such conduct is grounds
19 for the denial of Hanson’s future broker-dealer, securities salesperson, investment adviser, or investment adviser
20 representative registration applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW
21 21.20.110(4) and RCW 21.20.395, and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

22 4. In connection with the offer and/or sale of securities, John Charles Hanson violated RCW
23 21.20.010(2) by making untrue statements of material facts or omitting material facts necessary in order to make the
24 statements made, in light of the circumstances under which they were made, not misleading, by selling promissory
25 notes and an investment contract under the false pretense that he would use the investment funds to purchase a book of
business, by selling a fictitious real estate investment trust, by making unauthorized withdrawals from an advisory
client’s account to purchase a fictitious certificate of deposit, and by making other withdrawals and taking out policy
loans without the knowledge or consent of his advisory clients. Such conduct is grounds for the denial of Hanson’s
future broker-dealer, securities salesperson, investment adviser, or investment adviser representative registration
applications under RCW 21.20.110(1)(b), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395,
and for the charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

1 5. John Charles Hanson, in his capacity as an investment adviser, violated RCW 21.20.020(1) by
2 employing a device, scheme or artifice to defraud investors; by engaging in an act, practice, or course of business
3 which operated or would operate as a fraud or deceit upon another person; and by engaging in dishonest or unethical
4 practices as defined under WAC 460-24A-220(4) and (20), by selling promissory notes and an investment contract
5 under the false pretense that he would use the investment funds to purchase a book of business, by selling a fictitious
6 real estate investment trust, by placing an order to purchase or sell a security for the account of a client without
7 authority to do so when he sold securities in his advisory clients' brokerage accounts and withdrew the funds, without
8 his clients' knowledge. Such conduct is grounds for the denial of Hanson's future broker-dealer, securities
9 salesperson, investment adviser, or investment adviser representative registration applications under RCW
10 21.20.110(1)(b) and (g), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the
11 charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

12 6. John Charles Hanson, in his capacity as a securities salesperson, also engaged in dishonest or
13 unethical practices in the securities business as defined under: WAC 460-22B-090(2) by selling fictitious investments
14 to his clients and making unauthorized withdrawals from his clients' accounts off the books and records of NWMIS;
15 WAC 460-22B-090(8) by making unauthorized withdrawals from his clients' accounts and taking out unauthorized
16 loans against a client's insurance policies; WAC 460-22B-090(12) by failing to furnish any final prospectus to any of
17 the investors that he sold fictitious investments to; WAC 460-22B-090(13) by selling promissory notes and an
18 investment contract under the false pretense that he would use the investment funds to purchase a book of business,
19 selling a fictitious real estate investment trust, and selling securities from a client's account under the false pretense
20 that the funds would be used to pay for fictitious certificate of deposits; WAC 460-22B-090(16) by providing fictitious
21 contracts, projections, spreadsheets and other documents to investors when he sold them the fictitious investments; and
22 WAC 460-22B-090(19) by failing to comply with any applicable provision of the Conduct Rules of FINRA, namely
23 FINRA Rules 2010, 2020 and 2150. Such conduct is grounds for the denial of Hanson's future broker-dealer,
24 securities salesperson, investment adviser, or investment adviser representative registration applications under RCW
25 21.20.110(1)(g), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the charging of
costs under RCW 21.20.110(7) and RCW 21.20.390.

 7. John Charles Hanson is the subject of an order issued by a self-regulatory organization, namely
FINRA's Letter of Acceptance, Waiver and Consent (No. 2014042675001), entered after notice and opportunity for a
hearing, which permanently barred Hanson from associating with any FINRA broker-dealer in any and all capacities,
including as a securities salesperson. The entry of this order is grounds for the denial of Hanson's future broker-
dealer, securities salesperson, investment adviser, or investment adviser representative registration applications under
RCW 21.20.110(1)(e)(iii), for the imposition of fines under RCW 21.20.110(4) and RCW 21.20.395, and for the
charging of costs under RCW 21.20.110(7) and RCW 21.20.390.

CONSENT ORDER

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

IT IS AGREED AND ORDERED that Respondent, John Charles Hanson, his agents and employees shall each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Charles Hanson, his agents and employees shall each shall cease and desist from violating RCW 21.20.140, the securities registrations section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Charles Hanson, his agents and employees shall each shall cease and desist from violating RCW 21.20.020, the investment adviser anti-fraud section of the Securities Act of Washington.

IT IS FURTHER AGREED AND ORDERED that Respondent, John Charles Hanson, shall be liable for and shall pay a fine in the amount of \$120,000 and investigative costs of \$5,000.

IT IS FURTHER AGREED that payment of the fines and costs shall be deferred so long as Respondent, John Charles Hanson, remains in compliance with any restitution requirements ordered by the U.S. District Court. The fines and costs will be waived if Respondent, John Charles Hanson, makes full restitution as ordered by the U.S. District Court.

IT IS FURTHER AGREED AND ORDERED that any application that Respondent, John Charles Hanson, submits to register as a broker-dealer, securities salesperson, investment adviser, or investment adviser representative will be denied by the Securities Division.

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

IT IS FURTHER AGREED that Respondent, John Charles Hanson, entered into this Consent Order freely and voluntarily and with a full understanding of its terms and significance.

IT IS FURTHER AGREED that in consideration of the foregoing, Respondent, John Charles Hanson, waives his right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

Signed this 21st day of December, 2015.

Signed by:

/s/
JOHN CHARLES HANSON, Individually

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Approved as to form by:

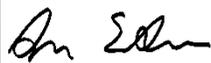
/s/
AMY RUBIN, WSBA No. 45874
Attorney for Respondent John Charles Hanson

SIGNED and ENTERED this 4th day of January, 2016.



WILLIAM M. BEATTY
Securities Administrator

Approved by:



SUZANNE SARASON
Chief of Enforcement

Presented by:

HUONG LAM
Financial Legal Examiner

Reviewed by:



JACK MCCLELLAN
Financial Legal Examiner Supervisor