

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

IN THE MATTER OF DETERMINING) Order No.: S-14-1603-16-FO01
Whether there has been a violation of the)
Securities Act of Washington by:) ENTRY OF FINDINGS OF FACT AND
) CONCLUSIONS OF LAW AND
Life Partners, Inc.; Life Partners Holdings,) FINAL ORDER TO CEASE AND DESIST,
Inc.; Brian Pardo; R. Scott Peden; David Barr;) TO IMPOSE A FINE, AND
James Billington; Kim Butler; Gary Cassill;) TO CHARGE COSTS
Michael Chapman; Tomas Delos Santos; Neal) AS TO TOMAS DELOS SANTOS
Inscoe; John Ley; William Meyer; Steven)
Minnich; Tim Watters; Don Wells; Alliance of)
Professionals for Business, Inc.; NW)
Retirement Solutions LLC; NW Safe)
Retirement LLC; Partners Portfolio Solutions,)
Inc.; Strategic Insurance Services, LLC;)
)
Respondents.)

THE STATE OF WASHINGTON TO: Tomas Delos Santos

On March 7, 2016, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist and to Charge Costs, Order No. S-14-1603-15-SC01 (hereinafter referred to as "Statement of Charges"). The Statement of Charges, 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 served on Respondent Tomas Delos Santos via first-class mail on April 20, 2016. The Notice of Opportunity for Hearing advised Respondent Tomas Delos Santos 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. Respondent Tomas Delos Santos failed to request an administrative hearing within twenty days of receipt of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided, or otherwise.

The Securities Administrator therefore will adopt as final the following Findings of Fact and Conclusions of Law as set forth in the Statement of Charges and enter a final order against Respondent Tomas Delos Santos to cease and desist from violations of the Securities Act, and to impose a fine of \$460 and charge investigative costs of \$500.

**FINAL ORDER
AS TO TOMAS DELOS SANTOS**

1 The Securities Administrator makes the following Findings of Fact and Conclusions of Law:

2 **FINDINGS OF FACT**

3 Respondents (Life Partners)

4 1. Life Partners, Inc. ("LPI") is a Texas corporation, incorporated on September 10, 1991, with
5 its principal place of business in Waco, Texas. LPI's primary business was selling life settlements, where
6 an investor buys a high-value life insurance policy from a policyholder at a discount from the face value of
7 the policy, and receives the right to the death benefit once the original insured dies. From January 1, 2009
8 to the present, LPI sold approximately \$17 million of life settlements to approximately 190 Washington
9 residents. LPI is currently engaged in Chapter 11 bankruptcy proceedings under the control of a trustee.

10 2. Life Partners Holdings, Inc. ("LPHI") is a Texas corporation, incorporated on August 16,
11 2002, with its principal place of business in Waco, Texas. LPHI is a holding company for LPI and is also
12 currently engaged in Chapter 11 bankruptcy proceedings under the control of a trustee.

13 3. Brian Pardo ("Pardo") is a Texas resident and the founder of LPI and LPHI. At all times
14 relevant herein, Pardo was the CEO of LPI and the President and CEO of LPHI.

15 4. R. Scott Peden ("Peden") is a Texas resident. At all times relevant herein, Peden was the
16 Vice President of LPHI, the President of LPI, and the General Counsel of both LPI and LPHI.

17 5. Collectively, LPI, LPHI, Pardo, and Peden are referred to in this Statement of Charges as the
18 "LPI Respondents."

19 Respondents (Individual Licensees)

20 6. From approximately 2009 to the present, Life Partners sold life settlements in Washington
21 through a number of "licensees" named below. Collectively, these sales agents (both individuals and
22 companies) will be referred to as the "Licensee Respondents."

23 7. David Barr ("Barr") is a Washington resident. Barr's Central Registration Depository
24 ("CRD") number is 1750094. His Washington State Office of the Insurance Commissioner ("OIC") number
25 is 3592. Barr has not been registered as a securities salesperson in Washington since 2003.

8 James Billington ("Billington") is a Washington resident. Billington's Central Registration
Depository ("CRD") number is 2428951. His Washington State Office of the Insurance Commissioner
("OIC") number is 84886. Billington has been registered as an investment adviser representative in
Washington since 2010. He has never been registered as a securities salesperson in Washington.

1 9. Kim Butler (“Butler”) is a Texas resident. Butler’s CRD number is 2128753. Butler is an
2 investment adviser representative with Partners for Prosperity, LLC, an SEC-registered investment adviser
3 based in Texas. Butler has never been registered as a securities salesperson or investment adviser
4 representative in Washington.

5 10. Gary Cassill (“Cassill”) is a Washington resident. Cassill’s CRD number is 2860601. His
6 OIC number is 72996. Cassill was a registered securities salesperson in Washington from September 16,
7 2008 to November 25, 2009 with LPL Financial LLC, and from August 23, 2010 to the present with JTA
8 Securities Management, Inc., d/b/a Titan Securities (“Titan Securities”). Cassill was not registered as a
9 securities salesperson in Washington between November 26, 2009 and August 22, 2010.

10 11. Michael Chapman (“Chapman”) is a Washington resident. Chapman’s CRD number is
11 2711593. His OIC number is 256714. Chapman was primarily an insurance salesperson for Farmers
12 Insurance during the time he sold life settlements. Chapman was a registered securities salesperson in
13 Washington from February 21, 2001 to December 31, 2006, but has not been so registered since then.

14 12. Tomas Delos Santos (“Delos Santos”) is a Washington resident. Delos Santos’s OIC number
15 is 10527. Delos Santos is currently retired, but previously worked primarily as an insurance salesperson.
16 Delos Santos has never been a registered securities salesperson in Washington.

17 13. Neal Inscoe (“Inscoe”) is a California resident. Inscoe’s CRD number is 1337485. His OIC
18 number is 749828. Inscoe has never been a registered securities salesperson in Washington.

19 14. John Ley (“Ley”) is a Washington resident. Ley is primarily a pilot for Delta Airlines, but
20 sold life settlements as a side business through two LLCs, described below. Ley has never been a registered
21 securities salesperson in Washington.

22 15. William Meyer (“Meyer”) is an Oregon resident. Meyer’s CRD number is 1183383. Meyer
23 was a registered investment adviser representative in Washington from May 9, 2007 through December 18,
24 2013; in Oregon from June 6, 2007 to June 10, 2015; and in Texas from May 12, 2009 to the present.
25 During the relevant time periods, Meyer worked as both an investment adviser and an insurance
salesperson. Meyer has never been a registered securities salesperson in Washington.

 16. Steven Minnich (“Minnich”) is a Washington resident. His OIC number is 235658. Minnich
works primarily as an insurance salesperson. Minnich has never been a registered securities salesperson in
Washington.

1 17. Tim Watters (“Watters”) is a Washington resident. Watters’ CRD number is 5278403. His
2 OIC number is 163470. Watters works primarily as an insurance salesperson. Watters has never been a
3 registered securities salesperson in Washington.

4 18. Don Wells (“Wells”) is a Washington resident. Wells’ CRD number is 1217316. His OIC
5 number is 76892. Wells was a registered securities salesperson in Washington from October 7, 2008 to
6 September 23, 2009 with KMS Financial Services, Inc., and from March 4, 2010 to the present with Titan
7 Securities. Wells was not registered as a securities salesperson in Washington between September 24, 2009
8 and March 3, 2010.

9 Respondents (Company Licensees)

10 19. Alliance of Professionals for Business, Inc. (“APB”) is a California corporation incorporated
11 on July 24, 2003. APB is currently suspended by California’s Franchise Tax Board for failure to meet tax
12 requirements. At all times relevant herein, Inscoc was a principal of APB. Inscoc sold LPI life settlements
13 to Washington residents through APB, which received commissions from LPI for Inscoc’s sales. APB has
14 never been a registered investment adviser or broker-dealer in Washington or any other state.

15 20. NW Retirement Solutions, LLC (“NW Retirement Solutions”) is a Washington limited
16 liability company, formed on October 4, 2006. Ley founded NW Retirement Solutions to engage in life
17 settlement sales through a company rather than individually. Ley sold LPI life settlements through NW
18 Retirement Solutions for approximately one year after the company’s formation, during which time NW
19 Retirement Solutions received commissions from LPI for Ley’s sales. At all times relevant herein, Ley was
20 the principal of NW Retirement Solutions. NW Retirement Solutions has never been a registered
21 investment adviser or broker-dealer in Washington or any other state.

22 21. NW Safe Retirements LLC (“NW Safe Retirements”) is a Nevada limited liability company,
23 formed on October 2, 2007. Ley founded NW Safe Retirements as a successor to NW Retirement Solutions,
24 and, beginning in approximately October 2007, sold life settlements only through NW Safe Retirements.
25 NW Safe Retirements received commissions from LPI for Ley’s life settlement sales. At all times relevant
26 herein, Ley was the majority owner of NW Safe Retirement and its primary life settlement salesperson. NW
27 Safe Retirement has never been a registered investment adviser or broker-dealer in Washington or any other
28 state.

29 22. Partners Portfolio Solutions, Inc. (“PPS”) is a currently-inactive Nevada corporation
30 incorporated on July 28, 2000. At all times relevant herein, Butler was the principal of PPS. Butler sold life
31

1 settlements in Washington through PPS, which received commissions for Butler’s LPI life settlement sales.
2 PPS has never been a registered investment adviser or broker-dealer in Washington or any other state.

3 23. Strategic Insurance Services, LLC (“SIS”) is an Oregon limited liability company, formed on
4 September 8, 1999. At all times relevant herein, Meyer was the principal of SIS. Meyer sold life
5 settlements in Washington through SIS, which received commissions from LPI for Meyer’s sales. SIS has
6 never been a registered investment adviser or broker-dealer in Washington or any other state.

7 Related Parties

8 24. LPI Financial Services (“LPIFS”) is a Texas corporation, originally incorporated on August
9 6, 2014, with its principal place of business in Waco, Texas. LPIFS is a subsidiary of LPHI. Pardo and
10 Peden created LPIFS to administer an additional maintenance fee for life settlement investors.

11 25. Dr. Donald Cassidy (“Cassidy”) is a Nevada resident. Cassidy is an oncologist who
12 contracted with LPI, beginning in 1999, to provide the life expectancy estimates which LPI used in their
13 purchase and sale of policies. Before LPI began contracting with him, Cassidy had no actuarial training or
14 experience in creating life expectancy estimates for life settlements. From 2007 through approximately
15 2011, LPI paid Cassidy a \$15,000 monthly retainer, with a bonus of \$500 for every policy which LPI
16 ultimately sold to investors. After 2011, LPI began paying Cassidy \$25 per policy he reviewed in lieu of the
17 \$500 bonus for sold policies.

18 26. H. Thomas Moran II is the bankruptcy trustee (“the trustee”) for LPI, LPHI, and LPIFS.
19 Moran has administered LPI, LPHI, and LPIFS since April 7, 2014, when the bankruptcy court appointed
20 him as trustee of all three companies.

21 Nature of the Offering

22 **I. Overview of Life Settlements**

23 27. A “life settlement” is a transaction in which the owner of a life insurance policy (the
24 “insured”) sells it to an investor for a substantial discount from the face value of the policy, but a premium
25 over its cash surrender value (“CSV”). There are two main types of life settlements: “viatical settlements”
or “viaticals,” which involve terminally ill insureds, and “senior life settlements,” which involve elderly
insureds that have not been diagnosed with a terminal condition. Collectively, these transactions are
referred to as “life settlements.”

26 28. After buying the policy, the investor receives the right to the death benefit when the insured
dies, but must pay premiums for the rest of the insured’s life. Because the investor must pay the insured’s
premiums, the total amount they must invest to ultimately receive a payout is unknown at the time of

1 purchase, and can vary depending on how long the insured lives. The return on investment depends
2 primarily on two factors: first, how long the insured lives, and second, the purchase price of the policy
3 compared to the death benefit.

4 29. As an illustration, an owner of a policy with a \$1 million death benefit and \$50,000 per year
5 in premiums might sell the policy to an investor for \$500,000. If the insured dies immediately after the
6 investor buys the policy, the investor receives the \$1 million death benefit and realizes a \$500,000 gain. On
7 the other hand, if the insured does not die until ten years after the investor buys the policy, the investor must
8 pay a total of \$500,000 in premiums in addition to the initial \$500,000 purchase price. There, the investor
9 realizes no gain from the investment, and has given up liquidity for the ten-year period where the insured
10 still lived. Because the investor's return on investment varies dramatically depending on when the insured
11 dies, the life expectancy of the insured is a critical factor in determining the purchase price for the policy,
12 and most investors will obtain a life expectancy estimate for the insured from a third party before purchase.

13 **II. Overview of LPI**

14 30. Most companies selling life settlements generally sold to large institutional investors, which
15 would buy entire policies from individual insureds. LPI, however, fractionalized policies into many smaller
16 interests (generally about 20 to 500 interests per policy) and sold the fractionalized interests to individual
17 retail investors at a significant markup. LPI made many life settlement sales after the 2008 financial crisis
18 by promoting life settlements to retail investors as an alternative to the stock market with double-digit
19 returns. LPI and its licensees were particularly successful in promoting life settlements to elderly retirees or
20 near-retirees, who were concerned about investment losses after 2008.

21 31. In 2012, the Securities and Exchange Commission ("SEC") sued LPHI and its officers for
22 violations of federal securities laws, including the use of misleading life expectancy estimates and material
23 misrepresentations in its public financial statements. In December 2014, the trial court imposed fines
24 totaling approximately \$47 million on LPHI, Pardo, and Peden. As a result, LPHI declared Chapter 11
25 bankruptcy in January 2015. Both LPI and LPHI, along with LPIFS, are currently under the control of a
26 bankruptcy trustee, with Pardo and Peden removed from their leadership roles.

27 **III. Structure of LPI's Life Settlements**

28 32. LPI earned money by buying policies from insureds who wished to sell their life insurance
29 policies, fractionalizing and marking up the policies, and selling them to investors. LPI began in the early
30 1990s as a viatical seller, but transitioned away from viaticals and into senior life settlements in the early
31 2000s because medical advances were causing AIDS patients to live longer. LPI's life settlement sales

1 increased significantly shortly after the 2008 financial crisis, as investors sought alternatives to the stock
2 market. In its marketing materials, LPI emphasized the certainty of life settlements and the “opportunity for
3 exceptional returns.”

4 33. In a typical transaction, an insured who wished to sell their policy would work with a broker
5 to attempt to sell the policy to life settlement companies, including LPI. As part of the sales process, the
6 insured would obtain a life expectancy evaluation from a third-party firm which specialized in such
7 estimates. If LPI was interested in purchasing a policy after its initial evaluation, it would refer information
8 about the policy to Cassidy for his own life expectancy evaluation. If the policy met LPI’s standards, LPI
9 would purchase it for subsequent resale to retail investors.

10 34. The LPI Respondents failed to disclose that the third-party life expectancy estimates, which
11 LPI received when evaluating and purchasing the policies, significantly exceeded Cassidy’s life expectancy
12 estimates. LPI generally sold policies based on Cassidy-provided life expectancies of 24-48 months or 36-
13 60 months. On average, the third-party firms’ estimates were approximately twice as long as Cassidy’s.
14 The LPI Respondents used only Cassidy’s shorter estimates to sell their life settlements, and failed to
15 disclose the existence of the longer third-party estimates to investors. LPI’s use of Cassidy’s estimates
16 enabled it to sell its life settlements at significantly higher prices, because Cassidy’s lower estimates led
17 investors to expect payments much sooner than they would have if LPI had disclosed the estimates from the
18 third-party firms.

19 35. As discussed above, LPI based its business model around fractionalizing policies into many
20 smaller interests and selling them to individual retail investors. Thus, a policy for one insured might have
21 several hundred different investors’ money pooled in the investment. LPI generally required a minimum
22 investment of \$50,000, and most commonly sold fractionalized interests for \$10,000 to \$20,000. An
23 investor who wished to invest \$50,000 in life settlements might buy a 1% interest in five different policies
24 from LPI and pay \$10,000 for each interest, rather than buying one policy from an insured for \$50,000.
25

22 **IV. LPI’s Licensees**

23 36. Rather than directly meeting with investors, LPI used a network of sales agents, which it
24 called “licensees,” to sell its life settlements. Despite the term “licensees,” LPI did not require its agents to
25 hold any state license such as a securities broker or insurance sales license. In some cases, LPI licensed

1 sellers with no financial industry experience, but who claimed to have sales and marketing training, access
2 to wealthy individuals, or simply experience buying stocks or bonds for themselves.

3 37. LPI used a multi-level marketing approach to recruit licensees, encouraging licensees to
4 recruit new licensees to sell life settlements. As a recruitment incentive, LPI paid licensees a certain
5 percentage of commissions from both the licensee's own sales and the sales of their recruits. LPI paid a 6-
6 8% commission to the direct seller of a life settlement, and a smaller amount, generally ranging from 0.5%
7 to 2%, to some or all of the licensees "upline" from the seller. In total, approximately 12% of investors'
8 money went to compensate either the direct seller or their upline. Both the LPI Respondents and most
9 Licensee Respondents, including at least Billington, Butler, Cassill, Chapman, Delos Santos, Inscoc, Ley,
10 Meyer, Watters, and Wells, failed to disclose this 12% figure to investors, in particular the fact that roughly
11 5% of their money was used to compensate licensees with no involvement in the transaction.

12 38. Of the approximately 190 Washington investors who purchased LPI life settlements, over
13 100 bought their life settlements from the Licensee Respondents. On average, the investors who bought life
14 settlements from the Licensee Respondents bought between seven and eight policies, investing an average
15 of approximately \$100,000. In order to invest in life settlements, most investors had to set up a new IRA
16 with a company which would accept life settlement transactions.

17 **V. LPI's Use of Investor Funds**

18 39. According to a report by LPI's bankruptcy trustee, from January 2007 until February 2015,
19 LPI used approximately \$1.28 billion of investor funds to purchase policies with a total face value of
20 approximately \$2.32 billion. LPI used the \$1.28 billion of investor funds approximately as follows:

- 21 a. \$348.8 million to the original insured to purchase the policy (27.1% of investor funds)
- 22 b. \$154.7 million in commission fees to LPI's licensees (12.1% of investor funds)
- 23 c. \$237.5 million in fees to LPI (18.5% of investor funds)
- 24 d. \$529.9 million to escrowed premium (42.1% of investor funds)

25 40. The LPI Respondents failed to disclose this fee structure to investors, in particular that
investors on average paid over 30% in fees and commissions to licensees and LPI, and that the average fees
and commissions exceeded the average price at which the policy was purchased from the insured.¹ The
substantial commissions which LPI paid to licensees incentivized sellers of the product to sell as many

¹ As a general guideline, any mark-up over 5% on the sale of a security is unreasonable according to the Financial Industry
Regulatory Authority ("FINRA") and its predecessor, the National Association of Securities Dealers ("NASD").

1 policies as possible, ignoring negative information about LPI's life settlements and, in many cases, failing to
2 evaluate whether the investment was suitable for the purchaser.

3 **VI. Investors' Reliance on LPI**

4 41. Investors could invest in life settlements either individually or through an IRA. For those
5 who invested individually, LPI sold them a direct interest in a percentage of the life settlement policy. For
6 those who invested through an IRA (a significant majority of Washington investors), LPI did not sell a
7 fractional interest to them directly, but created a trust for the policy with Pardo as the trustee. LPI then sold
8 the IRA investors a promissory note, purportedly secured by a percentage interest in the policy. To
9 illustrate, LPI might sell to the aforementioned \$50,000 investor five promissory notes in five trusts created
10 for five different policies, with each note corresponding to a 1% interest in the policy owned by the trust.
11 According to a report by the trustee, LPI did not transfer title or ownership of any policies to any life
12 settlement investor. As a result, the nature of investors' ownership interests has been a major issue in LPI's
13 bankruptcy proceedings. LPI failed to disclose the risks associated with the fact that it did not transfer
14 policy ownership, such as subsequent litigation over actual ownership of the policy interests.

15 42. Due to privacy laws relating to life settlements, and to medical records generally, investors
16 had no ability to obtain prepurchase information about insureds beyond that provided by LPI. Very few
17 investors directly chose the policies in which they would invest. Instead, most simply gave money to LPI
18 and waited for LPI to present them with a particular policy. Investors thus depended entirely on LPI's
19 expertise in estimating life expectancies, selecting policies, negotiating the purchase price with the insured,
20 and structuring the transaction to maximize the investor's rate of return.

21 43. LPI contracted with several different escrow agents to receive money from investors, hold
22 funds for premium payments, receive death benefits, and distribute death benefits to investors. When an
23 investor contracted with LPI to invest in life settlements, LPI placed the investor's funds into a "Policy
24 Funding Deposit" with one of the escrow agents. After placing the funds in escrow, LPI then located
25 policies in which to invest the funds, selected the policy for the investor, and informed the investor once
their funds had been placed in a particular policy. Most investors either did not have the opportunity to
select individual policies for themselves, or simply had the person who had sold them the policy pick for
them.

44. LPI also structured its life settlements to include a certain amount of upfront premium
payments in the escrowed purchase price. These upfront payments covered premiums through the high end
of Cassidy's life expectancy for that particular insured, generally four to five years. If the insured lived past

1 the high end of Cassidy's life expectancy, LPI required the investor to begin making premium payments in
2 order to keep the policy in force. If the insured died earlier, an investor would be repaid their unused
3 premium amounts in addition to their share of the death benefit. The amount of escrowed premium
4 payments was determined entirely by LPI; investors did not have the opportunity to escrow a higher or

5 45. In addition to depending on LPI's pre-purchase efforts, investors also depended entirely on
6 LPI for a variety of post-purchase services. In particular, LPI determined when to pay premiums, instructed
7 the escrow agents to make payments, monitored the health status of the insured, received notice when an
8 insured died, and instructed the escrow agents to prepare claims for the death benefits. The escrow agents
9 took direction only from LPI, and investors were generally prohibited by law from checking the status of the
10 insured through other sources such as the insurance company. Investors were therefore dependent on LPI
11 for both pre-purchase and post-purchase administration of their investment.

12 **VII. LPI's Life Expectancies**

13 46. Historically, insureds have significantly outlived LPI's life expectancies. From 2007 through
14 2011, LPI filed yearly reports with the Texas Department of Insurance ("TDI") which reflected LPI's life
15 expectancy for the insured when they brokered the policy, the date when the insured actually died, and the
16 difference in months between the LPI life expectancy and actual date of death. According to these reports,
17 approximately 441 insureds who had sold their policies through LPI died between the beginning of 2006
18 and the end of 2010. Of these 441 insureds, 361 (about 82%) had outlived their LPI life expectancy. Of the
19 361 insureds who exceeded their LPI life expectancies, 274 (about 62% of the overall total) exceeded it by
20 at least four years. The LPI Respondents misrepresented the accuracy of LPI's life expectancies to
21 investors, or failed to disclose the significant percentage of insureds that had exceeded their life
22 expectancies. The LPI Respondents' use of misleading life expectancies allowed them to sell significantly
23 more life settlements than they would otherwise have been able to.

24 47. The LPI Respondents, and at least some Licensee respondents, misrepresented or failed to
25 disclose to investors the above-mentioned negative information about LPI's life settlements, even after the
information became generally public. In December 2010, the *Wall Street Journal* published an article
which contained significant amounts of negative information about LPI's life settlements. For instance, in
the article, Pardo "acknowledged that many of [LPI's] life-expectancy estimates 'are probably wrong.'"
The article noted that, "[i]n 2003, of 299 policies the firm brokered, the insured as of a year ago had lived
past the Life Partners life expectancy in 279 instances." The article also discussed "20 instances where

1 specific individuals' longevity had been projected both by Life Partners and by independent firms that
2 specialized in making such estimates," that "[t]he independent firms' estimates were greater, generally by
3 50% to 100%," and that LPI did not disclose these longer predictions to investors. The article also stated
4 that Cassidy "doesn't check the accuracy of his [life expectancy] predictions." For sales made after the
5 article's publication, the LPI Respondents failed to disclose this article, or the information therein, to
6 investors. Some Licensee Respondents, including at least Barr, Billington, Butler, Chapman, Meyer, and
7 Watters, also failed to disclose this article or the information therein to investors.

8 48. Due to LPI's underestimated life expectancies, many investors had difficulty paying
9 premiums. The LPI Respondents misrepresented or failed to disclose the existence of cash surrender value
10 ("CSV") in many policies, and the fact that investors could have used CSV to pay premiums after the
11 escrowed amount had been depleted. CSV is the amount which a life insurance company will pay to a
12 policyholder who voluntarily terminates their policy. For certain types of life insurance policies, including
13 many brokered by LPI, a policyholder's premium payments will increase the CSV of the policy over time.
14 A policyholder can borrow against the CSV for various purposes, including premium payments. Although
15 borrowing against the CSV would have reduced the death benefit when the insured died, life settlement
16 investors would have been able to avoid making premium payments for some time if the insured exceeded
17 LPI's life expectancy. The LPI Respondents failed to disclose to investors the possibility of using CSV in
18 lieu of making premium payments, which resulted in many investors being unable to make payments and
19 ultimately being forced to resell or forfeit their interests in the policies.

20 49. The LPI Respondents misrepresented or failed to disclose that Cassidy's life expectancy
21 methodology differed from general industry practice. In creating his life expectancy estimates for LPI prior
22 to 2011, Cassidy began with a table created by the Center for Disease Control ("CDC") which used
23 mortality data for the general population of the United States. Other life expectancy providers, however,
24 generally began with the Valuation Basic Table ("VBT") created by the Society of Actuaries, which used
25 data from insured individuals rather than the general population. Because insured individuals are on
average healthier than the general population, life expectancy estimates created using the VBT table were
substantially longer than those created using the CDC table. In fact, after Cassidy began using the VBT in
2011, his average life expectancy estimate nearly doubled, from 56.4 months to 97.5 months. The LPI
Respondents failed to disclose, for sales prior to 2011, that LPI's life expectancies were created using a
table which was different from other life expectancy providers. The LPI Respondents also failed to disclose

1 that Cassidy had never analyzed the historical accuracy of his life expectancy estimates or researched the
2 methodology of other life expectancy providers.

3 50. The LPI Respondents, and many Licensee Respondents, misrepresented the historical return
4 on investment from life settlements by including in their calculations only policies where the insured had
5 already died. In selling life settlements to investors, many Licensee respondents, including at least
6 Billington, Butler, Cassill, Chapman, Delos Santos, Ley, and Watters, represented to investors that they
7 could expect returns exceeding 10%, or that life settlement investors had historically made double-digit
8 returns on investment. LPI's marketing materials made similar claims, such as a calculation of an
9 "[a]verage ROI on matured policies" of 14.72% per year which excluded the significant amount of policies
10 where the insured was still alive. A memo written by Peden and given to some Washington investors stated
11 that **"over the past 10 years, both the average and the median compounded return on investment on
12 matured policies has been in excess of 10%.** While not a guarantee, this gives a clear and meaningful
13 indication of the returns that previous purchasers have experienced" (emphasis in original). In fact, this
14 figure was neither clear nor meaningful. In the eight-year timeframe before this memo, LPI had purchased
15 811 policies, and Peden's ROI calculations included only the 47 policies where the insured had already
16 died—less than 6% of the total universe of policies. The LPI Respondents, and the Licensee Respondents
17 named above, failed to disclose the basis for the "historical returns" represented to investors, and that the
18 "historical returns" would have been significantly lower after factoring in policies where the insured had not
19 yet died.

20 VIII. Litigation Against Life Partners

21 51. In 2007, the Colorado Securities Commission sued LPI, LPHI, Pardo, Peden, and ten LPI
22 licensees who had sold LPI life settlements in Colorado. The lawsuit alleged various securities-related
23 violations, including registration violations and the use of materially misleading life expectancy estimates.
24 LPI, LPHI, Pardo, and Peden settled the action in December 2008. As part of the settlement, LPI offered
25 rescission for approximately \$12.8 million in life settlements to the Colorado investors who had purchased
26 life settlements since the beginning of 2006. All of the Licensee Respondents failed to disclose the
27 allegations in the lawsuit, or the lawsuit's outcome, to investors.

28 52. On January 20, 2011, LPHI announced through a press release that the Securities and
29 Exchange Commission ("SEC") was investigating its business. On January 3, 2012, the SEC sued LPI,
30 LPHI, Pardo, Peden, and LPHI Chief Financial Officer David Martin for various securities-related
31 violations. In part, the SEC alleged that LPHI used materially short and misleading life expectancy

1 estimates and had misrepresented or failed to disclose material information about the company in public
2 filings. Some Licensee Respondents, including at least Butler, Barr, Ley, and Billington, failed to disclose
3 to investors the SEC investigation, the SEC lawsuit, the allegations in the lawsuit, or the risks to LPI and
4 their life settlement investments if the SEC prevailed in the lawsuit.

5 53. On February 3, 2014, the jury in the SEC case found that LPI had “misrepresented, failed to
6 disclose, and/or made misleading omissions regarding: (i) a material risk to [LPI’s] business, (ii) a material
7 trend impacting [LPI’s] revenues, and (iii) [LPI’s] revenue recognition policies.” On March 12, 2014, the
8 judge issued an order upholding the jury’s findings.

9 54. In October 2014, LPI sent a letter to life settlement investors informing them of the creation
10 of LPIFS and a new “ministerial fee” of \$240 per account, plus an additional monthly charge ranging from
11 \$1.25 to \$2.50 per life settlement owned by the investor. LPI imposed this fee retroactively, charging
12 investors for services performed since October 2013, even though investors had not agreed to this charge.
13 LPI had not previously disclosed this fee to investors, or the possibility that it would charge such fees in the
14 future. In fact, LPI claimed the opposite: from at least 2008 until at least September 22, 2014, the contract
15 between LPI and investors stated that LPI’s “fees for all services provided in the performance of its duties
16 shall be complete and inclusive” in the initial purchase price paid by the investor, plus any interest from the
17 escrowed premiums, with no mention of additional fees. For over a month after the creation of LPIFS in
18 order to administrate additional ministerial fees, the LPI Respondents continued to claim in the contract that
19 purchasers would not have to pay any additional fees. The LPI Respondents failed to disclose that LPI’s
20 ability to continue to administer their policies was dependent on LPI’s financial condition, and that investors
21 could be forced to pay additional maintenance fees in order to keep the company operational and protect
22 their investment.

23 55. On December 2, 2014, the judge in the SEC case issued a final judgment order imposing
24 fines of approximately \$38.7 million on LPI, \$6.16 million on Pardo, and \$2 million on Peden. Due to its
25 loss in the SEC case and the substantial penalty the court had imposed, LPHI filed for Chapter 11
26 bankruptcy on January 20, 2015. The bankruptcy court appointed a Chapter 11 trustee, who subsequently
27 took over operations for LPHI, LPI, and LPIFS.

28 **IX. Sales Practices by Particular Licensees**

29 56. Billington represented to several investors that they could expect 1/3rd of insureds to die
30 before their LPI life expectancies, 1/3rd at or near them, and 1/3rd after them. Billington had no reasonable
31 basis for making this statement, which was contradicted by LPI’s track record of insureds significantly

1 exceeding their life expectancies. Several investors bought numerous policies based on this statement,
2 expecting that insureds would die at the rates Billington had predicted, and that their returns would be
3 reasonably consistent as a result.

4 57. Delos Santos gave marketing materials with significant misrepresentations to at least one
5 investor, with no reasonable basis for many of the statements in the materials. For instance, the materials
6 claimed that “LPI has done and extremely well with life expectancy for the last 15 years since the average
7 policy matures at 37.7 months after original purchase date,” and that LPI’s life settlements “have resulted in
8 a historical annualized interest rate of return of 15.82% on investment for investors. With the policies
9 purchased being held for 37.7 months on average before the return of principle and gross profit [all *sic*].”
As detailed above, these claims relating to the average lifespan of the insured and the historical return on
investment were false or materially misleading.

10 58. Ley made statements in marketing materials and in emails to potential investors relating to
11 the characteristics and potential returns of life settlements, with no reasonable basis for making those
12 statements. For instance, Ley claimed that that “[a] portfolio of life settlements from Life Partners will
13 deliver double digit returns,” that life settlements never lost principal, that investors paid no commission on
14 their investment, and that life settlements had “an average annualized ROI on actual payouts of 15.82%”
15 over the last 15 years. Ley failed to disclose in these marketing materials that this calculation was based
16 only on the small percentage of policies where the insured had actually died, and that investors could lose
17 money if the insureds exceeded their life expectancies. Ley’s marketing materials also included a table with
18 misleading calculations of the potential return on investment from life settlements. One investor asked Ley
19 how often insureds exceeded their life expectancies. Ley told the investor that it happens “occasionally,”
20 misrepresenting LPI’s actual track record. Ley also generally advertised life settlements in emails sent to
several thousand fellow pilots, most of whom he did not personally know.

21 59. Watters cold-called at least one Washington investor with whom he had no prior relationship.

22 **X. Sales in Washington**

23 60. From 2009 to the present, the Licensee Respondents sold an approximate combined total of
24 \$10.2 million of LPI life settlements to Washington residents.

25 61. Barr sold approximately \$1.03 million of LPI life settlements to approximately seventeen
Washington residents, and received approximately \$72,000 in commissions from LPI for these sales.

1 62. Billington sold approximately \$2.98 million of LPI life settlements to approximately
2 seventeen Washington residents, and received approximately \$209,000 in commissions from LPI for these
3 sales.

4 63. Butler, through PPS, sold approximately \$556,000 of LPI life settlements to approximately
5 three Washington residents, and received approximately \$39,000 in commissions from LPI for these sales.

6 64. Cassill sold approximately \$712,000 of LPI life settlements to approximately ten Washington
7 residents. He received approximately \$79,000 in commissions from LPI.

8 65. Chapman sold approximately \$771,000 of LPI life settlements to approximately seven
9 Washington residents, and received approximately \$54,000 in commissions from LPI for these sales.

10 66. Delos Santos sold approximately \$66,000 of LPI life settlements to approximately three
11 Washington residents, and received approximately \$4,600 in commissions from LPI for these sales.

12 67. Inscoc, through APB, sold approximately \$500,000 of LPI life settlements to one
13 Washington resident, and received approximately \$35,000 in commissions from LPI for these sales.

14 68. Ley, NW Retirement Solutions, and NW Safe Retirement sold approximately \$576,000 of
15 LPI life settlements to approximately four Washington residents. Ley also sold approximately \$7.5 million
16 of LPI life settlements to non-Washington residents. In total, Ley received approximately \$500,000 in
17 commissions from LPI for his sales.

18 69. Minnich sold approximately \$631,000 of LPI life settlements to approximately four
19 Washington residents, and received approximately \$44,000 in commissions from LPI for these sales.

20 70. Meyer, through SIS, sold approximately \$570,000 of LPI life settlements to approximately
21 two Washington residents, and received approximately \$40,000 in commissions from LPI for these sales.

22 71. Watters sold approximately \$1.02 million of LPI life settlements to approximately seven
23 Washington residents, and received approximately \$71,000 in commissions from LPI for these sales.

24 72. Wells sold approximately \$824,000 of LPI life settlements to approximately fourteen
25 Washington residents, and received approximately \$49,000 in commissions from LPI for these sales.

XI. Registration Status

73. The LPI Respondents are not currently registered to sell securities in the State of Washington
and have not previously been so registered, nor have they filed a claim of exemption from registration.

74. The Licensee Respondents, except Cassill and Wells, are not registered as securities
salespeople or broker-dealers in the State of Washington, and were not so registered at any time relevant
herein.

1 75. Cassill is a registered securities salesperson in the State of Washington, but was not so
2 registered between November 25, 2009 and August 23, 2010. Cassill sold at least one life settlement to a
3 Washington resident while unregistered.

4 76. Wells is a registered securities salesperson in the State of Washington, but was not so
5 registered between September 23, 2009 and March 4, 2010. Wells sold at least one life settlement to a
6 Washington resident while unregistered.

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

8 **CONCLUSIONS OF LAW**

9 1. Life Partners, Inc. and Life Partners Holdings, Inc.'s offer and sale of fractionalized interests
10 in life settlements, or of promissory notes for a percentage interest in a trust with its only asset as a life
11 settlement, as described above, constitute the offer and sale of a security as defined in RCW 21.20.005(14)
12 and (17).

13 2. Respondent Tomas Delos Santos violated RCW 21.20.140 by offering and selling life
14 settlements because, as set forth in the Tentative Findings of Fact, he offered and sold securities for which
15 no registration is on file with the Securities Administrator, and for which no valid claim of exemption exists.

16 3. Respondent Tomas Delos Santos violated RCW 21.20.010 in the offer and sale of securities,
17 as detailed above, by making untrue statements of materials fact or omitting to state material facts necessary
18 to make the statements made, in light of the circumstances under which they were made, not misleading.

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

20 **FINAL ORDER**

21 IT IS HEREBY ORDERED that Respondent Tomas Delos Santos, and his agents and employees,
22 each shall cease and desist from offering and/or selling securities in any manner in violation of RCW
23 21.20.140, the section of the Securities Act of Washington requiring registration of securities.

24 IT IS HEREBY ORDERED that Respondent Tomas Delos Santos, and his agents and employees,
25 each shall cease and desist from offering and/or selling securities in any manner in violation of RCW
26 21.20.040, the section of the Securities Act of Washington requiring registration of securities salespeople.

IT IS FURTHER ORDERED that Respondent Tomas Delos Santos, and his agents and employees,
each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of
Washington.

IT IS FURTHER ORDERED that Respondent Tomas Delos Santos shall be liable for and pay a fine
in the amount of \$460.

1 IT IS FURTHER ORDERED that Respondent Tomas Delos Santos shall be liable for and pay costs
2 in the amount of \$500.

3 **AUTHORITY AND PROCEDURE**

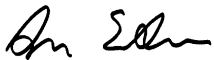
4 This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.110 and RCW 21.20.390,
5 and is subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Respondents have the right to
6 petition the superior court for judicial review of this agency action under the provisions of RCW 34.05.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

11 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

12 SIGNED and ENTERED this 27th day of May, 2016.

13 

14
15 _____
16 William M. Beatty
17 Securities Administrator

18 

19
20 _____
21 Suzanne Sarason
22 Chief of Enforcement

23 

24
25 _____
Adam N. Yeaton
Financial Legal Examiner

26 Reviewed by:

27 

28 _____
29 Jack McClellan
30 Financial Legal Examiner Supervisor