

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

4 IN THE MATTER OF DETERMINING
5 Whether there has been a violation of the
6 Securities Act of Washington by:

7 The Sound Mortgage Brokers, LLC,
8 Rochester 1-8, LLC,
9 Bruce Phillip Hills, a/k/a Phil Hills,

Respondents.

Order No. S-18-2571-19-SC01

STATEMENT OF CHARGES AND NOTICE OF
INTENT TO ENTER ORDER TO CEASE AND
DESIST, TO IMPOSE A FINE, AND TO CHARGE
COSTS

THE STATE OF WASHINGTON TO:

The Sound Mortgage Brokers, LLC
Rochester 1-8, LLC
Bruce Phillip Hills, a/k/a Phil Hills

10 **STATEMENT OF CHARGES**

11 Please take notice that the Securities Administrator of the state of Washington has reason to believe
12 that Respondents The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil
13 Hills, have each violated the Securities Act of Washington. The Securities Administrator believes these
14 violations justify the entry of an order against Respondents to cease and desist from such violations and to
15 charge costs pursuant to RCW 21.20.390, and to impose a fine pursuant to RCW 21.20.395. The Securities
16 Administrator finds as follows:

17 **TENTATIVE FINDINGS OF FACT**

18 **Respondents**

19 1. The Sound Mortgage Brokers, LLC (TSMB) is a Washington limited liability company that
20 was formed on February 1, 2017. Its principal place of business is Seattle, Washington. TSMB is in the
21 business of brokering commercial mortgages.
22
23

1 2. Rochester 1-8, LLC (Rochester 1-8) is a New York limited liability company that was formed
2 on December 1, 2017. Rochester 1-8 was formed to purchase and manage rental properties in Rochester, New
3 York. TSMB is the managing member of Rochester 1-8.

4 3. Bruce Phillip Hills, a/k/a Phil Hills, (Hills) is a resident of Seattle, Washington. Hills is the
5 managing member of TSMB. From January 23, 2015 to the present, Hills has been intermittently licensed to
6 conduct business as a mortgage loan originator with the Department of Financial Institutions, Consumer
7 Services Division (Consumer Services). His Nationwide Multistate Licensing System (NMLS) number is
8 353177.

9 **Nature of the Conduct**

10 *Overview*

11 4. Between October 2017 and January 2018, TSMB and Hills offered and sold unregistered real
12 estate investments to a Washington resident totaling \$132,250. Hills and TSMB also offered the investments
13 to at least two other prospective investors, and Hills encouraged the investor to refer prospective investors to
14 Hills and TSMB. Hills, TSMB, and Rochester 1-8 failed to disclose to the investor material information
15 related to the investments, and Hills and TSMB misused the investment funds that Rochester 1-8 received
16 from the investor.

17 *The Offerings*

18 5. Hills began offering unregistered real estate investments to the Washington investor on or
19 around October 16, 2017. Hills had met the Washington investor once about a year earlier, when Hills attended
20 the investor's medical spa. Hills, TSMB, and Rochester 1-8 did not have a substantive pre-existing
21 relationship with the investor at the time that Hills began offering the investments.

22 6. The investor had experience investing in real estate, and Hills talked to him about Hills's
23 interest in real estate investing. Based on representations by Hills, the investor understood that Hills was an

1 experienced real estate broker and successful real estate investor. Hills failed to disclose to the investor that
2 Hills was not a real estate broker, and that Hills did not have experience investing in rental properties. Hills
3 also failed to disclose material information related to his financial background because he failed to disclose
4 that he had filed for Chapter 7 bankruptcy in 2011 and received a discharge of his debts in 2012.

5 7. Hills told the investor that Hills had access to hundreds of rental properties in Rochester, New
6 York that were for sale. Hills told the investor that Hills and TSMB were working on creating multiple real
7 estate investments by bundling the properties into limited liability companies (LLCs) and offering the LLCs
8 for investment. Hills told the investor that his goal was to partner with people like the investor and eventually
9 earn multimillions in residual income from Hills's real estate strategy.

10 *Rochester 1-8 Investment*

11 8. On or around November 2, 2017, Hills offered the investor a \$115,000 investment in Rochester
12 1-8, which would own eight rental properties chosen by Hills and TSMB. Hills told the investor that the
13 investment would result in net annual income of \$37,140 and a return of the principal investment in three
14 years. The investment's return would come from the properties' rental income. Hills told the investor that the
15 investor would receive rental income a month after the purchase of the properties.

16 9. Hills told the investor that the investor would own 80% of Rochester 1-8, while TSMB would
17 own 20%. TSMB would receive 20% of Rochester 1-8 for finding and bundling the properties, and for
18 managing the investment. The investor would not have control over which properties the LLC purchased, and
19 the investor's investment would be passive. The investor and TSMB would each receive a prorated share of
20 the properties' rental income based on their ownership of Rochester 1-8.

21 10. Hills and TSMB provided the investor with information about the eight properties that
22 Rochester 1-8 planned on purchasing, including the price, estimated operating expenses, and rental income.
23 Hills and TSMB failed to disclose to the investor that Hills and TSMB did insufficient due diligence on the

1 properties, and that they were relying on the bank to conduct the necessary due diligence. Hills and TSMB
2 did not determine whether there were chain of title issues with the properties, and they did not determine
3 whether any of the properties were encumbered by liens. Hills and TSMB also failed to disclose to the investor
4 the risk that any encumbrances or chain of title issues on the properties could increase closing costs and delay
5 or prevent the purchase of the properties.

6 11. The combined price of the eight properties was about \$400,000. Hills told the investor that, to
7 purchase the properties, Rochester 1-8 would take out a loan from Canandaigua National Bank and Trust
8 (CNB), a bank based in Rochester, New York. CNB's loan would be secured by the eight properties. The
9 investor would also personally guarantee the loan. Hills told the investor that it would take about 60 days for
10 the loan to close.

11 12. Hills, TSMB, and Rochester 1-8 told the investor that the investment funds would be used to
12 close the purchase of the properties. This included the down payment, which was about 20% of the properties'
13 price, plus closing costs, a reserve for property taxes, insurance, and repairs, reimbursements to TSMB, and
14 a 1% loan fee to TSMB upon the loan closing. After the purchase closed, any excess funds would be returned
15 to the investor.

16 13. Hills, TSMB, and Rochester 1-8 failed to disclose to the investor that the investment funds
17 would not be placed in escrow, so there was no guarantee that the funds would be held until closing or
18 distributed as described by Hills, TSMB, and Rochester 1-8. Hills, TSMB, and Rochester 1-8 also
19 misrepresented the use of funds to the investor because they failed to disclose that Hills and TSMB would use
20 a majority of the investment funds for purposes other than purchasing the properties.

21 14. On November 22, 2017, Consumer Services entered a Statement of Charges against Hills and
22 several other respondents. Consumer Services alleged that Hills violated the Mortgage Broker Practices Act
23 of Washington by conducting the business of a mortgage loan originator from unlicensed branch office

1 locations, using trade names that were not approved by DFI, and failing to include required licensing
2 disclosures on certain websites. Hills did not disclose this Statement of Charges to the investor.

3 15. On December 5, 2017, TSMB notified the investor that CNB had committed to loaning
4 \$313,520 to Rochester 1-8 for the purchase of the eight properties. CNB's loan commitment to Rochester 1-
5 8 was scheduled to expire on January 31, 2018.

6 16. On December 7, 2017, the investor wired \$110,938.50 to Rochester 1-8's bank account at CNB
7 to invest in Rochester 1-8.

8 *Lamont Place Investment*

9 17. On or around December 29, 2017, Hills offered the investor an additional investment in a single
10 rental property, which was located on Lamont Place in Rochester, New York. Hills told the investor that the
11 property was under contract, and that it was not bundled into an LLC. Hills told the investor that the house
12 was being sold for \$37,000, that the property had an estimated value of \$50,000, and that it could be worth
13 \$80,000 with minor upgrades.

14 18. Hills offered to split the purchase of the property with the investor. Hills told the investor that
15 the seller of the rental properties had given Hills credits for facilitating the sale of multiple properties. Hills
16 would use these credits to purchase his portion of the house, while the investor would contribute cash. Hills
17 told the investor that the structure would be the same as Rochester 1-8, with an LLC owning the property and
18 Hills and the investor each owning a portion of the LLC. In this instance, Hills and the investor would each
19 own 50% of the LLC and split the profits. As with the first LLC, the investment would be passive for the
20 investor, and Hills would manage the investment.

21 19. Hills told the investor that the investment funds would be used to pay the investor's half of the
22 sale price, \$18,500, as well as closing costs. Hills failed to disclose to the investor that the investment funds
23 would not be placed in escrow, so there was no guarantee that the funds would be held until closing or

1 distributed as described by Hills. Hills misrepresented the use of funds to the investor because he failed to
2 disclose that Hills and TSMB would use a majority of the Lamont Place investment funds for purposes other
3 than purchasing the properties.

4 20. On January 3, 2018, Hills told the investor that the appraisals for the Rochester 1-8 properties
5 had come back and the values looked good. Hills said that they were waiting on a few things but were very
6 close to closing.

7 21. On or around January 3, 2018, the investor agreed to invest in the Lamont Place investment.
8 Shortly after, it was decided that the Lamont Place property would be purchased by Rochester 1-8 in order to
9 avoid the time and expense of creating a new LLC. On January 8, 2018, the investor wired \$21,311.50 to
10 Rochester 1-8's bank account for the Lamont Place investment.

11 22. After the investor invested in Rochester 1-8 and Lamont Place, the sale of the nine rental
12 properties never closed. The sale was repeatedly delayed because of issues with the chain of title for many of
13 the properties, the expiration of certificates of occupancy for some of the properties, and the presence of tax
14 liens on each of the properties. On multiple occasions over several months, Hills told the investor that they
15 would be ready to close the sale soon, but closing never occurred. During this time period, Hills continued to
16 offer the investor additional investments. Hills and TSMB also used the Rochester 1-8 and Lamont Place
17 investment funds for purposes other than the purchase of properties.

18 *Misuse of Funds*

19 23. Beginning on or around December 11, 2017, Hills and TSMB began transferring investment
20 funds from Rochester 1-8's bank account to TSMB's account at HomeStreet Bank in Seattle, Washington.

21 24. Between December 11, 2017 and January 18, 2018, Hills and TSMB transferred over \$21,000
22 of the investment funds to TSMB's bank account. Hills and TSMB used about \$11,000 of the funds on fees
23 and reimbursements related to the investments. Hills and TSMB used about \$10,000 of the funds for purposes

1 other than the investment, including transferring \$8,000 to a third bank account and spending funds on TSMB
2 business expenses.

3 25. On January 25, 2018, Hills told the investor that TSMB's attorney was meeting with the sellers
4 that day, and Hills estimated that they should be setting a closing date within the next week. On February 20,
5 2018, Hills told the investor that they were waiting for the seller's attorney to receive the payoffs amounts for
6 the tax liens, and that they would have a closing date by the end of the week. A closing date was not scheduled.

7 26. On February 21, 2018, Hills offered the investor a new \$143,000 investment in nine properties.
8 Hills told the investor that the investment would result in a net annual income of \$22,000 and a return of
9 15.7%. Hills failed to disclose to the investor material information related to this offer, including a description
10 of the properties, the basis of Hills's projections, and the risks of investing. Hills also failed to disclose that,
11 at this point, Hills and TSMB had used about \$10,000 of the investor's funds from the Rochester 1-8 and
12 Lamont Place investments for purposes other than the purchase of the properties.

13 27. On March 2, 2018, Hills told the investor that the seller's attorney had received the payoff
14 amounts for the tax liens the day before, and that their attorney was reviewing the documents and would let
15 them know when they could close. On March 16, 2018, Hills told the investor that their attorney would be
16 contacting CNB that Monday to start preparing the documents for closing. On March 21, Hills told the investor
17 that the title company was working on the closing statement and asked the best way to coordinate with the
18 investor for a notary. Despite these communications, the purchase of the properties did not close.

19 28. Between April 11, 2018 and April 16, 2018, Hills and TSMB transferred \$6,000 of the
20 investment funds from Rochester 1-8's account to TSMB's bank account. Hills then transferred the \$6,000 to
21 a third account. On April 16, 2018, Hills texted the Washington investor and told him that they were waiting
22 on certificate of occupancy inspections for a couple of the properties. Hills told the investor that the bank
23 offered to close without the inspections but Hills didn't want to close without them.

1 29. On April 16, Hills offered the investor a new \$80,000 investment in a triplex that Hills said
2 was valued at \$120,000. Hills offered to split the price of the triplex with the investor. Hills said that they
3 could flip the triplex in about 6 months, and Hills would give the investor all of the profit to make up for how
4 long the Rochester 1-8 and Lamont Place investments were taking. Hills failed to disclose to the investor
5 material information about this offer, including a basis for Hills's projections and the risks of flipping a
6 property. Hills also failed to disclose that, at this point, Hills and TSMB had used about \$16,000 of the
7 Rochester 1-8 and Lamont Place investment funds for purposes other than the purchase of the properties.

8 30. Between April 17, 2018 and April 26, 2018, Hills and TSMB made additional transfers totaling
9 \$30,000 from Rochester 1-8's bank account to TSMB's account. Between April 24, 2018 and May 18, 2018,
10 Hills and TSMB used the \$30,000 on purposes other than the investment, such as office rent, restaurants,
11 retail, and a deposit and rent for Hills's personal residence. Hills also transferred \$10,000 of the funds to a
12 third bank account. In addition, Hills used \$5,500 of the funds to pay the costs and fines that he owed to
13 Consumer Services pursuant to a Consent Order, which he entered into to settle the Statement of Charges
14 entered against him in November 2017.

15 31. On April 26, 2018, Rochester 1-8's bank account balance had fallen to about \$70,000 due to
16 withdrawals by Hills and TSMB. This amount was far less than what was needed to close on the purchase of
17 the nine properties, which required about \$80,000 for the down payment on the Rochester 1-8 properties,
18 \$18,500 to purchase the Lamont Place property, and additional funds for closing costs, lien payoffs, attorney
19 fees, and loan fees.

20 32. Hills and TSMB did not disclose to the investor that, between December 2017 and April 2018,
21 Hills and TSMB had transferred about \$57,000 of the investment funds to TSMB's bank account and used
22 the majority of the funds on purposes other than the purchase of the properties. Hills and TSMB also did not
23

1 disclose that Rochester 1-8's bank account no longer contained sufficient funds to close on the purchase of
2 the properties.

3 33. Hills and TSMB continued to transfer investment funds to TSMB's account. By May 30, 2018,
4 the balance in Rochester 1-8's bank account was about \$30,000.

5 34. On June 1, 2018, CNB notified Hills and the investor that, after waiting several months past
6 the expiration of its loan commitment, CNB would not loan the funds for the purchase of the rental properties.

7 35. On or around June 1, 2018, Hills transferred \$30,000 from Rochester 1-8's bank account to
8 TSMB's bank account, leaving a balance of \$854.18 in Rochester 1-8's bank account.

9 36. On June 3, 2018, the investor contacted CNB and requested that his funds be returned to him.
10 In response, CNB notified the investor that Hills had already withdrawn the funds from the account.

11 37. On June 4, 2018, the investor contacted Hills, asked about the investments, and requested that
12 his investment funds be returned to him. Hills told the investor that he was traveling to Rochester and asked
13 for time to save the investment. The next day, Hills told the investor that CNB had agreed to an extension to
14 allow for the certificates of occupancy to be completed, and that it was not the time to move the investment
15 funds.

16 38. Hills did not tell the investor that, over the previous months, Hills and TSMB had transferred
17 a total of about \$127,000 of the investor's funds out of Rochester 1-8's bank account, or that Hills and TSMB
18 had used the majority of the investor's funds for purposes other than purchasing the investment properties.

19 39. Hills did not tell the investor that, in June 2018, TSMB's bank account at HomeStreet Bank
20 contained about \$54,000 of the investor's funds, or that there were insufficient funds remaining to close on
21 the purchase of the properties.

22 40. Between about June 1, 2018 and October 19, 2018, Hills used the remaining \$54,000 of the
23 investor's investment funds for purposes other than the investment, including TSMB business expenses such

1 as rent, utilities, and marketing. Hills also used the funds on travel, restaurants, and rent for Hills's personal
2 residence.

3 **Registration Status**

4 41. The Sound Mortgage Brokers, LLC is not currently registered as a broker-dealer in the state of
5 Washington and has not previously been so registered.

6 42. Rochester 1-8, LLC is not currently registered to sell its securities in the state of Washington
7 and has not previously been so registered, nor has it filed a claim of exemption from registration

8 43. Bruce Phillip Hills, a/k/a Phil Hills, is not currently registered as a securities salesperson or
9 broker-dealer in the state of Washington and has not previously been so registered.

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

11 **CONCLUSIONS OF LAW**

12 1. The offer and sale of the LLC interests as described above constitutes the offer and sale of a
13 security as defined in RCW 21.20.005(14) and RCW 21.20.005(17).

14 2. The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil
15 Hills, have each violated RCW 21.20.140 by offering and selling securities for which no registration is on file
16 with the Securities Administrator.

17 3. The Sound Mortgage Brokers, LLC and Bruce Phillip Hills, a/k/a Phil Hills, have each violated
18 RCW 21.20.040 by offering and selling securities while not being registered as a securities salesperson or
19 broker-dealer in the state of Washington.

20 4. The Sound Mortgage Brokers, LLC; Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil
21 Hills, have each violated RCW 21.20.010 by making untrue statements of material fact or omitting to state
22 material facts necessary to make the statements made, in light of the circumstances in which they were made,
23 not misleading.

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

2 Pursuant to RCW 21.20.390(1), and based upon the above Tentative Findings of Fact and Conclusions
3 of Law, the Securities Administrator intends to order that Respondents The Sound Mortgage Brokers, LLC;
4 Rochester 1-8, LLC; and Bruce Phillip Hills, a/k/a Phil Hills, their agents and employees, shall each cease
5 and desist from violations of RCW 21.20.010 and RCW 21.20.140, and that Respondents The Sound
6 Mortgage Brokers, LLC and Bruce Phillip Hills, a/k/a Phil Hills, their agents and employees, shall each cease
7 and desist from violations of RCW 21.20.040.

8 **NOTICE OF INTENT TO IMPOSE A FINE**

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

- 11 a. Respondent The Sound Mortgage Brokers, LLC shall be liable for and shall pay a fine of \$20,000; and
- 12 b. Respondent Bruce Phillip Hills, a/k/a Phil Hills, shall be liable for and shall pay a fine of \$20,000.

13 **NOTICE OF INTENT TO CHARGE COSTS**

14 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions
15 of Law, the Securities Administrator intends to order that Respondents The Sound Mortgage Brokers, LLC
16 and Bruce Phillip Hills, a/k/a Phil Hills, shall be jointly and severally liable for and shall pay the costs, fees,
17 and other expenses incurred in the administrative investigation and hearing of this matter, in an amount not
18 less than \$6,500.

19 **AUTHORITY AND PROCEDURE**

20 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
21 to the provisions of Chapter 34.05 RCW. Respondents The Sound Mortgage Brokers, LLC; Rochester 1-8,
22 LLC; and Bruce Phillip Hills, a/k/a Phil Hills, may each make a written request for a hearing as set forth in
23 the NOTICE OF OPPORTUNITY FOR HEARING accompanying this Order. If a respondent does not make

1 a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative
2 Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist as to that
3 respondent, to impose any fines sought against that respondent, and to charge any costs sought against that
4 respondent.

5 Signed and Entered this 7th day of February 2020.

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9 _____
William M. Beatty
Securities Administrator

10 Approved by:

Presented by:

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13 _____
Suzanne Sarason
Chief of Enforcement

14 _____
Holly Mack-Kretzler
Financial Legal Examiner

15 Reviewed by:

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17 _____
Brian Guerard
Financial Legal Examiner Supervisor