DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES
ENFORCEMENT SECTION
BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of:	)	**S-09-0041**
REI EXCHANGE, LLC, TMG VENTURES, INC., and ANTHONY C. SCHWARTZ,	)	**ORDER TO CEASE AND DESIST, DENYING EXEMPTIONS, AND ASSESSING CIVIL PENALTIES ENTERED BY CONSENT**
Respondents.	)	

WHEREAS, the Director of the Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (hereafter the "Director"), acting by and pursuant to the authority of the Oregon Securities Law, ORS 59.005 *et. seq.*, and other applicable authority, has a pending investigation into the activities of **REI EXCHANGE, LLC.**, (hereafter "**REI EXCHANGE**"), **TMG VENTURES, INC**., (hereafter "**TMG VENTURES**"), and **ANTHONY C. SCHWARTZ** (hereafter "**SCHWARTZ**");

WHEREAS, Respondents do not desire to expend further time on this matter, and seek to obtain finality with respect to the Division's investigation without invoking their right to a hearing before the Director;

NOW THEREFORE, the Director hereby issues the following Findings of Fact and Conclusions of Law, which Respondents neither admit nor deny, and Order, to which Respondents consent, as evidenced by the signature of Respondent **SCHWARTZ** on the Consent to Entry of Order attached hereto:

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350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

FINDINGS OF FACT

The Director **FINDS** that:

Part One: Respondents

1. **REI EXCHANGE** was, at all times material herein, a Nevada limited liability company (Nevada Secretary of State Business Entity #E0393642006-0). **SCHWARTZ** was the sole member of REI Exchange, which conducted business from 29030 SW Town Center Loop E #202, Wilsonville, Oregon 97070.

2. **REI EXCHANGE** was not, at all times material herein, licensed to sell securities by the State of Oregon.

3. **TMG VENTURES** was, at all times material herein, an Oregon for-profit corporation (Oregon Secretary of State Business Registry #343416-93). **SCHWARTZ** was the President and sole shareholder of TMG Ventures, which conducted business from 22355 SW Stafford Road, Tualatin, Oregon 97062.

4. TMG VENTURES was not, at all times material herein, licensed to sell securities by the State of Oregon.

5. SCHWARTZ was, at all times material herein, a resident of Oregon. Schwartz conducted business from 22355 SW Stafford Road, Tualatin, Oregon 97062**.** Schwartz raised money from **REI EXCHANGE** investors from May 2006 to November 2006, and used these funds to operate a "mortgage foreclosure rescue" program through **TMG VENTURES**.

6. SCHWARTZ was not, at all times material herein, licensed to sell securities by the State of Oregon.

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Part Two: Mortgage "Foreclosure Rescue" Programs

7. Homeowners not making monthly mortgage payments in a timely fashion will, in nearly all jurisdictions, encounter the foreclosure process, a method by which lenders may lawfully claim and/or sell realty on which they have a recorded lien to secure their loan.

8. By statute, a homeowner will typically be afforded a set period of time to cure a deficiency by paying all amounts due and owing; to the extent the homeowner is financially unable to do so, he or she stands to lose not merely ownership and the right to legally occupy the residence but also whatever equity the homeowner has accrued in the property. In instances in which the period of ownership has been lengthy, this equity may amount to a substantial percentage of the fair market value of a residence.

9. Homeowners in financial distress may find themselves attracted to so-called "foreclosure rescue" programs. While "foreclosure rescue" programs vary in their details, they uniformly offer the promise of saving a homeowner's residence from bank repossession. For example, **TMG VENTURES**, which offered its "foreclosure rescue" services nationwide, tendered a sum equal to the total of a homeowner's unpaid mortgage payments, property taxes, and governmental liens directly to the financial institution and/or government agency holding the encumbrance. These payments removed the direct threat of an immediate foreclosure proceeding. In return, the distressed homeowner executed a deed conveying ownership of their home to a "land trust" **SCHWARTZ** controlled. The homeowner was required to make a monthly payment to TMG Ventures, in an amount which included the current mortgage payment owed to the financial institution that held the mortgage(s) on the property, property tax payments, etc. (Schwartz promised to forward sums to creditors in a timely fashion.) The monthly payment also included a portion of the fees TMG Ventures charged for its services.

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10. Promoters of "foreclosure rescue" programs represent that their services will give homeowners the time they need to refinance their obligations, allowing them to retain both their home and the equity they have built in their property.

Part Three: TMG Ventures Offers Assistance To Homeowners

11. **TMG VENTURES** used its website, www.themoneyguy.com, to attract distressed homeowners. It was not unusual for a homeowner to contact TMG Ventures a week before their property was scheduled to revert to its secured lender by court order. **SCHWARTZ** told homeowners that, if they had sufficient equity in their home [at a minimum, fifteen percent (15%)], and otherwise qualified, TMG Ventures could loan the homeowner funds necessary to remove the threat of foreclosure.

12. Every **TMG VENTURES** loan transaction involved the contemporaneous execution of a series of "boilerplate" filled agreements by the homeowner, including documents entitled "The Title Holding Trust", "Beneficiary Agreement", "Non Exclusive Option to Acquire Beneficiary Interest In A Title Holding Trust", "Memorandum of Option To Purchase Real Estate", "Assignment of Beneficial Interest", "Limited Power of Attorney", "Warranty Deed In Trust", "Bill of Sale", and "Occupancy Agreement."

13. The **TMG VENTURES** program used a "land trust" to hold property. The homeowner conveyed her ownership interest in real property (via a "warranty deed in trust") and personal property (via a "bill of sale") to a trust. The homeowner putatively served as beneficiary of this trust, yet immediately conveyed her interest to a successor trustee which, depending on the transaction, was either **REI EXCHANGE** or TMG Ventures. (Another document - a "memorandum of option to purchase real estate" – gave the homeowner the right to re-purchase the property interests involved for a sum approximately equal to the amount TMG Ventures lent the homeowner to forestall foreclosure.)

14. The successor trustee was obligated to record "land trust" conveyance documents to secure its property interests. In practice, county property recording offices often rejected

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submitted filings on the grounds that the documents did not comport with local laws, regulations, or accepted practices. As such, the loans TMG Ventures made to homeowners were, nearly uniformly, unsecured.

15. **TMG VENTURES** loaned funds to approximately seventy (70) homeowners nationwide in 2006. **TMG VENTURES** did not charge a homeowner a set or variable interest rate on the funds it loaned, believing that doing so would trigger lending licensure requirements. Rather, **SCHWARTZ** charged his clients "fees." The fees assessed varied substantially from transaction to transaction, and were not based on objectively developed criteria shared with clients.

16. Homeowners turned to **TMG VENTURES** because their employment and/or credit history was too poor to attract aid from traditional financial institutions. **SCHWARTZ** told homeowners that if their financial situation stabilized they would, because of the equity they had built up in the property, likely be able to refinance with a bank or credit union. In such instances, TMG Ventures would receive only the principal loan amount and its fees.

17. In many instances, however, homeowners' financial picture continued to worsen. If a homeowner missed two (2) monthly payments, **TMG VENTURES** had the right to evict the homeowner, take full legal title to the property, sell the house at its fair market value, and retain the equity therein. After encumbrances were paid off, proceeds were to be immediately distributed to the individuals that provided funding for TMG Ventures. It was the prospect of this sometimes lucrative reward that attracted individuals to invest in **REI EXCHANGE**.

Part Four: Schwartz Raises Funds From Investors Through REI Exchange

18. To obtain money to operate his foreclosure rescue program, **SCHWARTZ** sold fractional interests in real estate "land trusts" through **REI EXCHANGE**. Schwartz raised $845,606 from forty-seven (47) individuals from May 2006 to November 2006.

19. **REI EXCHANGE** solicited investments from the public through the internet (www.reiexchange.com). **SCHWARTZ** used search engine optimization (a process by which

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a website uses certain proprietary combinations of keywords, numbers, and data to place higher, and therefore be seen by more individuals, on search-engine websites such as Google and Yahoo) to drive internet traffic to his website.

20. **REI EXCHANGE** also came to investors' attention through classified listings on newspaper websites. For example, an REI Exchange listing on the Los Angeles Times website read:

> Earn a safe 30-60% APR Safe. Trust-Deed backed Real Estate Investments. No glitter. Low Min. www.rei-exchange.com.

21. **REI EXCHANGE** investors did not receive a private placement memorandum, or other securities disclosure document, either before or after their investment. In addition, **SCHWARTZ** did not use written sales materials when speaking with prospective investors, choosing instead to send a copy of the five page REI Exchange "investment agreement", which represented that the company was *"in the business of investing into Real Estate Properties, arranging financing for properties, and enhancing Real Estate Investment opportunities through web-enabling the networking of Real Estate Investors."*

22. **REI EXCHANGE** investors purchased fractionalized interests in a series of real estate based "land trusts", and not an entire interest in a single residence's foreclosure rescue contract. (By way of example, one investor had fractional interests in 30 different land trusts.) **SCHWARTZ** touted the investment in multiple land trusts as proof of healthy financial and geographic diversity.

23. Investors were required to execute the **REI EXCHANGE** investment agreement, and forward to **SCHWARTZ** with a check for the amount they desired to invest. Schwartz, and not the investor, decided which properties, and what percentage of ownership of said property's land trust, a given investor would receive interests in. (An investment in a "land

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trust" was not fractionalized equally; one investor could hold a forty percent (40%) interest while another could have a three percent (3%) share.)

24. The **REI EXCHANGE** investment agreement noted that in the event a **TMG VENTURES** client failed to make required monthly payments and was subsequently evicted, the REI Exchange *"[i]nvestor would be paid their pro-rated share of Net Revenues… earned through the sale of the property."* Some, but not all, investment agreements also contained specific guarantees of financial return. For example, one agreement states that *"the company agrees to pay investor a portion of all net monthly payments generated by the properties specified in Appendix A. The company agrees to guarantee a monthly payment to investors in the amount of 1.5 percent of the investment per month for the life of each individual transaction as specified in Appendix A. For this investment that guaranteed payment will be $1,801 per month."*

25. Although there was no fixed date by which returns to investors were required to be made, the **REI EXCHANGE** investor agreement noted that *"[g]enerally most business relationships are 12-18 months in length."* By "business relationship" **SCHWARTZ** meant the length of time between the investment and either a given homeowner's successful refinancing or default.

26. Individuals invested in **REI EXCHANGE** with the understanding that they were provided with all material information necessary to make an informed investment decision. This was not the case.

Part Five: Misrepresentations Made To REI Exchange Investors

27. Nearly all **REI EXCHANGE** investors became acquainted with the company through the website **SCHWARTZ** developed and maintained. Much of the information investors received was garnered from the website, as investors did not receive documentation containing information traditionally tendered in connection with a securities offering.

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28. Although **REI EXCHANGE** was a newly formed LLC and **SCHWARTZ**, whose previous ventures involved the sale of jewelry and the outsourcing of data entry services, had no real estate experience, the company's website nevertheless stated *"at the REI-Exchange, we come from a history of creating wealth by offering homeowners a competitive, friendly method to get out of foreclosure."*

29. The **REI EXCHANGE** website touted an investment with the company as being safe and risk-free: *"We make sure that our investors are safe and fully secured on all transactions… "What are the risks? Almost nothing. You see, all deals we do have a 15-60% equity position when we get involved in the transaction. So, if the homeowner/tenant goes 30 days late on their payments they will actually forfeit their lease option. This means what seems like a negative situation is actually a great win for the investor. In this situation, we liquidate the property and investors earn 70-140% on their investment.* **SCHWARTZ** did not inform prospective investors that many jurisdictions would not record "land trust" interests in property recording offices, thus removing Schwartz's ability to convey clean title to a buyer. As a result, the loans which were made using the proceeds from the offering were unsecured, and to a particularly high risk class of borrowers.

30. The **REI EXCHANGE** website stated that it had "*developed a unique way to form a strong, bulletproof legal methodology that protects our investors and provides a very predictable cashflow through the life of a 12 to 18 month foreclosure recovery…Investors now can be in a passive role while earning 30, 40, or even 80% on real estate secured deals."* In point of fact, **SCHWARTZ** did not consult with an attorney to develop a "legal methodology", did not inform investors that the **TMG VENTURES** foreclosure rescue program likely violated the property and/or lending laws of many states in which it had loaned funds, and did not provide investors with a letter from counsel opining on the legality of the securities to be issued.

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31. The **REI EXCHANGE** website implied that numerous individuals and/or entities throughout the United States used REI Exchange to present prospective real estate deals to investors. It noted that "*[t]here are thousands of Real Estate Investors nationwide. Now, through REI-Exchange, they can market their contracts in one central location to investors like you."* **SCHWARTZ** knew that "investors" did not "market their contracts" on the REI Exchange website, which it alone employed, and only for **TMG VENTURES** transactions.

32. **REI EXCHANGE** failed to disclose the underwriting criteria **SCHWARTZ** would use to select **TMG VENTURES** clients to prospective investors. In addition, Schwartz failed to disclose to prospective investors the methods he would employ to evict non-performing TMG Ventures clients, obtain clean title to properties, and then sell the homes.

33. **REI EXCHANGE** failed to disclose information about its true financial condition, or that of **TMG VENTURES**. Prospective investors were not given financial statements, or other objective information by which they could independently gauge the fiscal health of the business they were considering investing in.

34. **REI EXCHANGE** failed to inform prospective investors that a fractional interest in a "land trust" agreement constituted a security, that the securities issued by REI Exchange were not registered with the Director, as required by law, and that neither REI Exchange or **SCHWARTZ** was licensed to sell securities.

Part Six: The TMG Ventures Mortgage Foreclosure Rescue Program Ends

35. On October 10, 2006 the State of California, through its Corporations Division, ordered "Anthony C. Schwartz also known as Tony Schwartz" and "REI Exchange also known as Real Estate Investor Exchange" to desist and refrain from violating California's securities laws by selling securities in the form of investment contracts of REI comprising fractional shares in real estate contracts to the public, including California residents."

36. On May 3, 2007 **REI EXCHANGE** filed an application for registration of securities, to be issued in connection with a rescission offering, with the Director. A

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"rescission" offering is used to remedy violations of securities laws made in connection with a previous sale of securities. In a rescission offering, an issuer of securities gives investors a prospectus describing both the nature of the violation(s) and material information about the issuer, its management, and its business operations. The investor may accept the rescission offer, and receive the full amount of their original investment with statutory interest, or affirm their original investment.

37. The proposed prospectus submitted by **REI EXCHANGE** noted that *"There may have been violations of the Securities Act or OSL* [Note: Oregon Securities Law] *in connection with the Investment Agreements issued during the Rescission Period since minimal written material was provided to investors in the offering and investors became aware of the Company through our website regarding unregistered securities."*

38. The Director issued an Order of Registration on May 15, 2007.

39. After receiving the Order of Registration, **SCHWARTZ** did not send notice of said rescission, or the approved prospectus, to any investors.

40. Although some **REI EXCHANGE** investors received a small percentage of their principal, the majority of investors lost the entirety of their investment, as many **TMG VENTURES** clients did not fulfill their financial obligations and **SCHWARTZ** was unable to seize, or sell, a single property.

CONCLUSIONS OF LAW

The Director concludes:

41. The fractional interests in "land trusts" that Respondents offered and sold are securities, as defined by ORS 59.015 (19) (a).

42. Respondents sold securities that were not registered with the Oregon Division of Finance and Corporate Securities in or from the State of Oregon, in violation of ORS 59.055.

43. The Order of Registration authorizing rescission issued by the Director on May 15, 2007 was improvidently granted, and is therefore deemed to be null and void.

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44. Respondents sold securities in or from the State of Oregon without being licensed as a broker-dealer or general license broker-dealer salesperson, in violation of ORS 59.165 (1).

45. Respondents, in connection with the sale of fractional interests in land trusts, made an untrue statement of a material fact, in violation of ORS 59.135 (2), by falsely representing that *"at the REI-Exchange, we come from a history of creating wealth by offering homeowners a competitive, friendly method to get out of foreclosure."*

46. Respondents, in connection with the sale of fractional interests in land trusts, made an untrue statement of a material fact, in violation of ORS 59.135 (2), by falsely representing that an investment with **REI EXCHANGE** was safe and risk-free.

47. Respondents, in connection with the sale of fractional interests in land trusts, made an untrue statement of a material fact, in violation of ORS 59.135 (2), by falsely representing that it had "*developed a unique way to form a strong, bulletproof legal methodology that protects our investors and provides a very predictable cashflow through the life of a 12 to 18 month foreclosure recovery…Investors now can be in a passive role while earning 30, 40, or even 80% on real estate secured deals."* In point of fact, Respondents did not consult with an attorney to develop a "legal methodology", did not inform investors that the **TMG VENTURES** foreclosure rescue program likely violated the property and/or lending laws of many states in which it had loaned funds, and did not provide investors with a letter from counsel opining on the legality of the securities to be issued.

48. Respondents, in connection with the sale of fractional interests in land trusts, made an untrue statement of a material fact, in violation of ORS 59.135 (2), by falsely representing that individuals and/or entities throughout the United States used **REI EXCHANGE** to present prospective real estate deals to investors. Its website noted that "*[t]here are thousands of Real Estate Investors nationwide. Now, through REI-Exchange, they can market their contracts in one central location to investors like you."* Respondents knew that "investors"

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did not "market their contracts" on the REI Exchange website, which it alone employed, and only for **TMG VENTURES** transactions.

49. Respondents, in connection with the sale of fractional interests in land trusts, omitted to state a material fact, in violation of ORS 59.135 (2), by failing to disclose the underwriting criteria that would be used to select **TMG VENTURES** clients to prospective investors. In addition, Respondents failed to disclose to prospective investors the methods it would employ to evict non-performing TMG Ventures clients, obtain clean title to properties, and then sell the homes.

50. Respondents, in connection with the sale of fractional interests in land trusts, omitted to state a material fact, in violation of ORS 59.135 (2), by failing to disclose information about the true financial condition of **REI EXCHANGE** or **TMG VENTURES**. Prospective investors were not given financial statements, or other objective information by which they could independently gauge the fiscal health of the business they were considering investing in.

51. Respondents, in connection with the sale of fractional interests in land trusts, omitted to state a material fact, in violation of ORS 59.135 (2), by failing to disclose that a fractional interest in a "land trust" agreement constituted a security, that the securities issued by **REI EXCHANGE** were not registered with the Director, as required by law, and that Respondents were not licensed to sell securities.

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ORDER

The Director Orders:

52. Pursuant to the authority granted by ORS 59.245, Respondents shall **CEASE AND DESIST** from engaging in any further violations of the Oregon Securities Law, its accompanying administrative rules, and this Order.

53. **REI EXCHANGE** and **TMG VENTURES**, pursuant to the authority contained in ORS 59.995, shall, jointly and severally, tender the sum of **FIFTY THOUSAND**

DOLLARS ($50,000) for violations of ORS 59.055 described herein; the sum of **FIFTY THOUSAND DOLLARS** ($50,000) for violations of ORS 59.165 described herein; and the sum of **FIFTY THOUSAND DOLLARS** ($50,000) for violations of ORS 59.135 described herein, for a total civil penalty of **ONE HUNDRED FIFTY THOUSAND DOLLARS** ($150,000).

54. **SCHWARTZ**, pursuant to the authority contained in ORS 59.995, shall tender the sum of **THIRTY THREE THOUSAND THREE HUNDRED THIRTY FOUR DOLLARS** ($33,334) for violations of ORS 59.055 described herein; the sum of **THIRTY THREE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS** ($33,333) for violations of ORS 59.165 described herein; and the sum of **THIRTY THREE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS** ($33,333) for violations of ORS 59.135 described herein, for a total civil penalty of **ONE HUNDRED THOUSAND DOLLARS** ($100,000). Of this amount, the sum of **EIGHTY THOUSAND DOLLARS** ($80,000) shall be **SUSPENDED** so long as **SCHWARTZ** does not violate the securities laws and accompanying administrative rules of the State of Oregon – or the terms of this Order - for a period of **NINE** (9) **YEARS** from the date of entry of this Order. (To the extent that **SCHWARTZ** is found to have committed any such violation, the entire sum of **ONE HUNDRED THOUSAND DOLLARS** ($100,000), minus amounts paid, shall become immediately due and owing). The remaining **TWENTY THOUSAND DOLLARS** ($20,000) shall be paid in monthly installments (described below) with the first such installment due on December 1, 2009 and remaining installments due on the first calendar day of each month thereafter (timely payment shall be deemed to be of the essence; failure to make payment(s) in a timely fashion will constitute a violation of this Order). **SCHWARTZ** shall tender monthly installments in the amount of **TWO HUNDRED DOLLARS** ($200) per month for 24 months, **THREE HUNDRED DOLLARS** ($300) per month for the next 12 months, and **FIVE HUNDRED DOLLARS** ($500) per month until the sum of **TWENTY THOUSAND**

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DOLLARS ($20,000) has been paid in full. (There shall be no penalty for pre-payment of any portion of this civil penalty.)

55. **SCHWARTZ**, and any entities that employ or otherwise utilize his services for the purpose of raising capital, are, pursuant to ORS 59.045, **DENIED THE USE OF ANY EXEMPTIONS**, that would otherwise be available to them under ORS 59.025 and ORS 59.035, to registration requirements. Furthermore, **SCHWARTZ** is, for the protection of the investing public, **STRICTLY PROHIBITED** from raising capital, formally or informally, from other individuals for use or investment on their behalf.

Dated this 24th day of December 2009 at Salem, Oregon.

CORY STREISINGER, Director
Department of Consumer and Business Services

/s/ David Tatman

David C. Tatman, Administrator
Division of Finance and Corporate Securities

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CONSENT TO ENTRY OF ORDER

Respondent **SCHWARTZ** states: that he has read the foregoing Order and fully understands the contents thereof; that he has been advised of the right to a hearing and of the right to be represented by counsel in this matter; that he, voluntarily, and without any force or duress, consents to the entry of this Order, expressly waiving any right to a hearing in this matter; that he understands that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law; and that he will fully comply with the terms and conditions stated herein.

Respondent **SCHWARTZ** further assures the Director that he is authorized to enter into this Order on behalf of **REI EXCHANGE** and **TMG VENTURES**.

Respondent **SCHWARTZ** understands that this Consent Order is a public document.

Dated this 25th day of November, 2009.

/s/ Anthony Schwartz

ANTHONY C. SCHWARTZ

SUBSCRIBED AND SWORN to before me this 25th day of November, 2009.

/s/ Dianne R. Heisler
Notary Public
for the State of: Oregon

My commission expires: 11-11-11

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For **REI EXCHANGE, LLC:**

I, **ANTHONY C. SCHWARTZ**, represent that I have been authorized by **REI EXCHANGE, LLC** to enter into this Order for and on behalf of **REI EXCHANGE, LLC**.

Dated this 25 day of November 2009.

/s/ Anthony Schwartz
ANTHONY C. SCHWARTZ

Diane R. Heisler
(Printed Name of Notary Public)
Notary Public
for the State of: Oregon
My commission expires: 11-11-11

For **TMG VENTURES, INC.:**

I, **ANTHONY C. SCHWARTZ**, represent that I have been authorized by **TMG VENTURES, INC** to enter into this Order for and on behalf of **TMG VENTURES, INC**.

Dated this 25 day of November 2009.

/s/ Anthony Schwartz
ANTHONY C. SCHWARTZ

Dianne R Heisler
(Printed Name of Notary Public)
Notary Public
for the State of: Oregon
My commission expires: 11-11-11

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