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

In the Matter of: **The Home Loan Store of Grants Pass, Inc.,** **and Dixie R. Smith;** **Respondents.**	**M-10-0054** **ORDER TO CEASE AND DESIST, ORDER DENYING EXEMPTIONS, ORDER BARRING FROM MORTGAGE INDUSTRY, ORDER ASSESSSING CIVIL PENALTIES** **AND** **CONSENT TO ENTRY OF ORDER**

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

WHEREAS the Director (the "Director") of the Department of Consumer & Business Services for the State of Oregon (the "Department") conducted an investigation into the activities of The Home Loan Store of Grants Pass Inc. ("HLS") and Dixie R. Smith ("Smith") (collectively, "Respondents") and determined that Respondents engaged in activities constituting violations of ORS 86A.095 et seq. (hereinafter cited as the Oregon Mortgage Lender Law) and ORS 59.005 et seq. (hereinafter cited as the Oregon Securities Law); and

WHEREAS Respondents wish to resolve this matter with the Director,

NOW THEREFORE, as evidenced by the authorized signature subscribed on this order, Respondents hereby **CONSENT** to entry of this order upon the Director's Findings of Facts and Conclusions of Law as stated hereinafter:

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I. FINDINGS OF FACT

1. HLS is an Oregon corporation with its former principal place of business located at 1595 NE 6th St., Ste. D, Grants Pass, OR 97526. HLS obtained an Oregon mortgage lender license (ML- 2775) on January 7, 2003. That license was set to expire on January 6, 2010 until the Division accepted its surrender on April 7, 2009. Smith is a 50% owner of HLS, is President of HLS, and is the experienced person and contact person of record with the Division for the firm.

2. Respondents provide non-conventional financing of residential mortgages funded by private individuals, in addition to conventional funding. The privately funded loans are referred to in Oregon Mortgage Law as "investor transactions" and are governed, in part, by Oregon Administrative Rules ("OAR") 441-865-0080 through 441-870-0050. In typical investor transactions, private borrowers borrow from private lenders, and the loans are brokered by firms such as HLS. The borrowers in these transactions pay back the loan, plus interest, just as they would in a traditional bank-financed loan, though, typically, at a higher interest rate and often with higher fees.

3. In addition to the normal disclosures in conventional transactions, investor transactions require that the investor be provided by the broker with a disclosure detailing the nature and terms of the private investment transaction pursuant to OAR 441-870-0050(1) and 441-035-0021(3), including, among other items, the priority of the lien granted in exchange for the investor's investment, the borrower's payment history, and other relevant information.

A. BLUEGRASS DOWN INVESTMENT

4. Beginning in approximately 2005, DK and JK a married couple (hereinafter collectively "DJK") began investing in investor transactions brokered by HLS, and invested in approximately 12 investments over the course of the next four years.

5. After a number of profitable investments, on or about June 3, 2005 DK invested $94,620 (57%) and JK invested $34,860 (21%) towards the construction of a single family residential home in a subdivision in Central Point, OR named Bluegrass Downs (the "Bluegrass Downs

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Investment"), along with two other investors (collectively, with the DJK, the "Bluegrass Downs Investors"), who contributed $21,580 (13%) and $14,940 (9%) each.

6. The Bluegrass Downs Investment totaled $166,000, obtained from four separate investors, was to be repaid according to the terms of a promissory note (the "Bluegrass Down Promissory Note") due and payable no later than June 23, 2006, at a rate of 15% per annum, and was secured by the property to be developed.[1] The Bluegrass Downs Promissory Note also guaranteed a 6 months reserve of interest payments.

7. The money was borrowed by and the home was to be constructed by developers RG and FB (hereinafter "Bluegrass Downs Developers").

8. The Bluegrass Downs Developers were ultimately unable to repay one or more of the liens senior to that held by the Bluegrass Downs Investors, and DJK lost their entire investment in the project, of $94,620 (57%) and $34,860 (21%) respectively.

9. At no time did Respondents deliver to DJK a document containing all of the disclosures required by OAR 441-870-0050(1) and 441-035-0021(3).

10. At no time did Respondents deliver to the DJK a statement of whether any future advances may have had priority senior to that of the lien created by the security.

11. At no time did Respondents deliver to the DJK the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for the Bluegrass Downs Developers.

12. At no time did Respondents deliver to the DJK a statement of the risk of loss on foreclosure of a senior lien.

13. At no time did Respondents deliver to the DJK a statement of whether or not they were

[1] A trust deed ("Trust Deed") was filed with the Jackson County Clerk reflecting that the property to be developed was subject to a first priority lien held by the Bluegrass Downs Investors. However, the Trust Deed contained two errors, and the same day that the Trust Deed was filed, a document entitled "2nd Trust Deed" was filed with the Jackson County Clerk that was intended to correct the errors contained in the Trust Deed. These errors were that: (1) the Trust Deed's title did not reflect the fact that the lien held by the Bluegrass Downs Investors was in second position to $290,000 lien that had been created in 1994 (the "1994 Lien"), and (2) the Trust Deed stated that the Bluegrass Down Investors had invested $290,000, when they had only invested $166,000.

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insured against casualty loss.

14. The money received from the Bluegrass Downs Investors was pooled into a common bank account and was all secured by the same residential real property.

15. The Bluegrass Downs Investors gave money to the Developers with the expectation of making a profit.

16. The Bluegrass Downs Investors had no role in the essential managerial efforts of the Bluegrass Downs Developers.

17. The success of the Bluegrass Downs Investors investments were interwoven with and dependent upon the efforts and success of the Bluegrass Downs Developers.

18. At no time relevant to this matter were the interests in the loans in the Bluegrass Downs Investment registered with the Director for offer or sale in Oregon as securities.

19. At no time relevant to this matter were Respondents or any of the principals, owners or employees engaged in the transactions that are the subject of this Order, ever licensed to sell securities in Oregon.

B. RIVERVIEW ESTATES INVESTMENT

20. On or about February 19, 2007, a contractor in the Grants Pass, Oregon area, D.H., was assessed a $11,721.73 federal tax assessment, for unpaid federal quarterly employment taxes from the year 2003. This created a federal tax lien and was filed with the Josephine County Clerk on March 13, 2007.

21. On or about March 19, 2007, D.H. was assessed a $5,600,322 tax payment by the federal Internal Revenue Service for unpaid personal income taxes from years 2001, 2002, and 2003. This created a federal tax lien that was filed with the Josephine County Clerk on April 16, 2007.

22. On or about February 27, 2007, DK and JK each invested $42,000 towards the construction of two single family residential homes in a subdivision in Grants Pass, Oregon called Riverview Estates (the "Riverview Estates Investments").

23. DJK's Riverview Estates Investments totaled $84,000, was to be repaid according to

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two separate promissory notes (the "Riverview Estates Promissory Notes"), both due and payable no later than March 1, 2008, at a rate of 15% per annum, and were secured, under separate second trust deeds to the respective property to be developed.

24. The money was borrowed by and the home was to be constructed by borrower / developer DH (the "Riverview Estates Developer").

25. At no time did Respondents deliver to DJK a statement of whether any future advances may have had priority senior to that of the lien created by the security.

26. At no time did Respondents deliver to DJK the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for developer DH.

27. At no time did Respondents deliver to DJK a statement of the risk of loss on foreclosure of a senior lien.

28. At no time did Respondents deliver to DJK a statement of whether or not they were insured against casualty loss.

29. The money received from DK and JK in the Riverview Estates Investment was pooled into a common bank account and was secured by the same residential real property.

30. DJK gave money to the Riverview Estates Developers with the expectation of making a profit.

31. DJK had no role in the essential managerial efforts of the Riverview Estates Developer.

32. The success of DJK's Riverview Estates Investments were interwoven with and dependent upon the efforts and success of the Riverview Estates Developer.

33. At no time relevant to this matter were the interests in the loans in the Riverview Estates Investment registered with the Director for offer or sale in Oregon as investments.

34. At no time relevant to this matter were Respondents or any of the principals, owners or employees engaged in the transactions that are the subject of this Order, ever licensed to sell securities in Oregon.

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35. As a result of the federal tax lien, developer DH was unable to complete construction on the Riverview Estates Investment, and the homes were not completed. As a result of DH's inability to complete the construction work, the liens senior to DJK's were foreclosed, and DJK lost the entire $84,000 of their Riverview Estates Investment.

C. FREEDOM ESTATES INVESTMENT

36. On or about April 4, 2007, DK invested $32,400 towards the construction of two single family residential homes in a subdivision in Grants Pass, Oregon called Freedom Estates (the "Freedom Estates Investment").

37. DK's Freedom Estates Investment totaling $32,400 was to be repaid according to a promissory note (the "Freedom Estates Promissory Note"), "due and payable upon sale" of the subject properties, at a rate of 16% per annum, and was secured by a second trust deed to the property to be developed.

38. At no time did Respondents deliver to DK a statement of whether any future advances may have had priority senior to that of the lien created by the security.

39. At no time did Respondents deliver to DK the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for developer DH.

40. At no time did Respondents deliver to DK a statement of the risk of loss on foreclosure of a senior lien.

41. At no time did Respondents deliver to DK a statement of whether or not they were insured against casualty loss.

42. As a result of the federal tax lien developer DH was unable to complete construction on the Freedom Estates Investment, and the homes were not completed. As a result of DH's inability to complete the construction, DK lost her entire $32,400 Freedom Estates Investment.

D. STEVENSON STREET INVESTMENT

43. On or about the week of March 6, 2007, Smith informed DK of a potential single family

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residential home remodel project as a potential investment that she might be interested in. Smith informed DK that the resident was a painter who intended to remodel the home.

44. On or about March 6, 2007, DK invested $25,000 towards the remodel of a single family residential home located at 223 W. Stevenson St., Cave Junction, Oregon 97523 ("Stevenson St. Investment").

45. The investment was to be repaid according to the terms of a one year promissory note ("Stevenson St. Promissory Note") at 13% per annum, dated March 6, 2007. The Stevens Promissory Note also guaranteed 6 months of interest payments.

46. The Stevenson St. Promissory Note did not contain a provision securing it with a trust deed, but was executed by the parties contemporaneously with a document entitled "Trust Deed" granting DK a second priority lien in the property to be remodeled and sold. The document, however, was entitled "Trust Deed" not "Second Trust Deed." The document did not disclose the fact that the lien was a junior lien.[2]

47. At no time did Respondents deliver to DK a statement of whether any future advances may have had priority senior to that of the lien created by the security.

48. At no time did Respondents deliver to DK the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for the Stevenson St. developer.

49. At no time did Respondents deliver to DK a statement of the risk of loss on foreclosure of a senior lien.

50. At no time did Respondents deliver to DK a statement of whether or not they were insured against casualty loss.

51. After receiving approximately four to five monthly interest payments, payments stopped, and DK lost the remainder of her entire $25,000 Stevenson St. Investment.

[2] The documents in this transaction were notarized by David Hoover's wife, Anne Hoover, who was an escrow officer at Ticor Title.

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E. MONUMENT DRIVE INVESTMENT

52. On or about May 31, 2007, AP and KP are a married couple (hereinafter collectively "AKP") invested $34,000 towards the redevelopment of a retail property located at 8530 Monument Dr., Grants Pass, Oregon 97526 (the "Monument Dr. Investment"). The Monument Dr. Investment was to be repaid according to the terms of a one year promissory note ("Monument Dr. Promissory Note") at 15% per annum, also dated May 31, 2007.

53. The Monument Dr. Promissory Note stated that 6 months interest had been prepaid to the lender, and that it was secured by "Real property commonly known as 8530 Monument Drive. Legal description is to be attached to recorded Trust Deed."[3]

54. The trust deed that served as security for the Monument Dr. Investment was entitled "Trust Deed" and did not contain any notation in the title or elsewhere, that this was a second trust deed lien.

55. At no time did Respondents deliver to the AKP a statement of whether any future advances may have had priority senior to that of the lien created by the security.

56. At no time did Respondents deliver to AKP the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for the developer.

57. At no time did Respondents deliver to AKP a statement of the risk of loss on foreclosure of a senior lien.

58. At no time did Respondents deliver to the AKP a statement of whether or not they were insured against casualty loss.

59. The Monument Dr. Investment was in fact secured by a second trust deed lien. When the developer was unable to pay the senior lien, it was foreclosed, and AKP lost the remainder of their investment, totaling almost $34,000.

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[3] Actual language used in the Monument Dr. Promissory Note.

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F. F STREET INVESTMENT

60. On or about May 31, 2007, AKP invested $40,000 towards the redevelopment of a single family residential home located at 1104 NW F St., Grants Pass, Oregon 97526 (the "F Street Investment"). The F Street Investment was to be repaid according to the terms of a one year promissory note ("F Street Promissory Note") at 15% per annum, also dated May 31, 2007.

61. The F Street Promissory Note stated that 6 months interest had been prepaid to the lender, and that it was secured by "Real property commonly known as 1104 NW F Street, Grants Pass, O[r]egon. Legal description is to be attached to recorded Trust Deed."

62. The trust deed that served as security for the F Street Investment was entitled "Trust Deed" and did not contain any notation in the title or elsewhere, that this was a second trust deed lien.

63. At no time did Respondents deliver to AKP a statement of whether any future advances may have had priority senior to that of the lien created by the security.

64. At no time did Respondents deliver to AKP the debtor's payment record on the instrument being sold for the preceding two years or the payment record to date, or a current credit report or financial statement for the developer.

65. At no time did Respondents deliver to AKP a statement of the risk of loss on foreclosure of a senior lien.

66. At no time did Respondents deliver to AKP a statement of whether or not they were insured against casualty loss.

67. The F Street Investment was in fact secured by a second trust deed lien. When the developer was unable to pay the senior lien, it was foreclosed, and AKP lost the remainder of their investment, totaling almost $40,000.

CONCLUSIONS OF LAW

The Director **CONCLUDES** that:

1. Respondents, as mortgage brokers, sold notes secured by real estate, which is defined as

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"real estate paper" under ORS 59.015(15). Real estate paper sold by a mortgage broker is a security under ORS 59.015(19).

2. The investments described herein and sold by Respondents in Bluegrass Downs, Riverview Estates, Freedom Estate, Stevenson St., Monument Dr., and F Street are "investment contracts" and therefore securities as defined by ORS 59.015(19)(a) because they involved: (1) an investment of money (or money's worth), (2) in a common enterprise, (3) with the expectation of a profit, (4) to be made through the management and control of others.

3. Respondents, on at least six separate occasions, sold unregistered securities in violation of ORS 59.055 by selling securities to three Oregon residents that were not registered for sale in Oregon.

4. Respondents, on at least six separate occasions, sold securities without a license in violation of ORS 59.165(1) by selling securities to three Oregon residents without holding a license from the Director to sell securities in Oregon.

5. The securities sold by Respondents described herein are not exempt under ORS 59.035(7) because Respondents did not provide to the investors, prior to the time of sale, a written disclosure document containing all of the disclosures described in OAR 441-035-0021(3) and OAR 441-870-0050(1) as required by OAR 441-035-0021(1), (3) and OAR 441-870-0050(1).

6. Respondents, on at least six separate occasions, violated OAR 441-0350021(1), (3) and OAR 441-8700050(1) by failing to provide a written disclosure document, prior to the time of sale, containing all of the disclosures described in OAR 441-035-0021(3) and OAR 441-870-0050(1) including but not limited to:

a. The priority of the lien created by the security and the total face amount of any senior liens;

b. A statement whether any future advances may have a priority senior to that of the lien created by the security;

c. A copy of the most recent complete property tax statement, covering the real property underlying the security;

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d. The value of the real property underlying the security. This value must be provided by:

A. The tax assessed value if it is 100 percent of the true cash value and is on the same property underlying the security; or

B. An appraisal by an independent licensed appraiser.

e. The debtor's payment record, on the instrument being sold for the two years immediately preceding the sale. When the debtor's payment record is less than two years or not available:

A. The payment record to date or a statement that payment records are not available; and

B. A current credit report on the debtor prepared by a credit reporting agency or a current financial statement of the debtor.

f. The terms of any senior lien or a copy of the instrument creating the lien and any assignments;

g. If the mortgage seller, seller's agent, or any affiliate is the debtor, a statement disclosing that fact and the amount of cash paid to the debtor in consideration for the issuance of the real estate paper;

h. A statement of any commissions, collection fees, and other costs chargeable to the purchaser of the real estate paper;

i. A prominent statement of any balloon payments;

j. In the case of a sale of junior real estate paper, a statement of the risk of loss on foreclosure of a senior lien; and

k. A statement of whether or not the purchaser of the real estate paper will be insured against casualty loss.

7. Respondents, on at least six separate occasions, committed a dishonest, fraudulent, or illegal practice in violation of ORS 59.865 by failing to provide the disclosures required by OAR 441-870-0050 in each of the six transactions described herein.

ORDER

The Director, pursuant to ORS 59.245 and ORS 86A.127(4) (previously ORS 59.885(4)) hereby **ORDERS** that Respondents shall **CEASE AND DESIST** from violating any provision of the Oregon Securities Law or Oregon Mortgage Lender Law, and any rules, order, or policy issued by the Director.

Pursuant to ORS 59.045, the Director ORDERS Respondents, and any entities that employ or otherwise utilize any of Respondents services for the purpose of raising capital, are,

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hereby **DENIED THE USE OF ANY EXEMPTIONS**, to Oregon securities registration requirements authorized by ORS 59.025 and ORS 59.035.

Dixie Smith or any entity owned or controlled by Dixie Smith is hereby **BARRED** from being licensed as a mortgage broker or banker in Oregon. Dixie Smith is also **BARRED** from acting as an experienced person per ORS 86A.106(2) (previously ORS 59.850(2)) for any mortgage broker or banker in Oregon. Further, Dixie Smith is **BARRED** from acting as a mortgage loan originator or mortgage loan processor in Oregon.

Pursuant to ORS 59.205, Respondent Dixie Smith is **DENIED** the ability to obtain a broker-dealer salesperson or investment adviser representative license, and is **PROHIBITED** from maintaining an ownership interest in or executive role with a broker-dealer or investment adviser licensed by this state.

The Director, pursuant to ORS 59.995 and ORS 86A.992 (formerly ORS 59.996(2)) hereby **ORDERS** Respondents to pay the State of Oregon a CIVIL PENALTY of $25,000. This civil penalty is calculated as follows: $10,000 for the violations of ORS 59.165; $10,000 for the violations ORS 59.055; and $5,000 for the violations of ORS 59.865 and OAR 441-870-0050 described herein. In exchange for Respondents consent to the industry Bars described herein and in order to ensure compliance with the terms of this order, The Director hereby suspends this civil penalty in its entirety for five years from the date of this order, so long as Respondents comply with the Oregon Mortgage Lender Law, the Oregon Securities Law, and any order or policy issued by the Director. After five years of compliance with the terms of this order, the Civil Penalty will be waived in its entirety.

The Director, pursuant to ORS 86A.124 (formerly ORS 59.880) **ORDERS** Respondents to pay $1,500 for costs associated with the examination of this case.

The date of this order is the day the Director or Director's nominee signed the order. The entry of this Order in no way limits further remedies that may be available to the Director under Oregon law.

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IT IS SO ORDERED.

Dated this 12th day of December 2011 at Salem, Oregon.

Scott L. Harra, Acting Director
Department of Consumer and Business Services

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

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CORPORATE CONSENT TO ENTRY OF ORDER

I, Dixie Smith, state that I am an officer of The Home Loan Store of Grants Pass and I am authorized to act on its behalf; that I have read the foregoing Order and that I know and fully understand the contents hereof; that I and this entity have been advised of the right to a hearing and of the right to be represented by counsel in this matter; that The Home Loan Store of Grants Pass 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 The Home Loan Store of Grants Pass 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 or Oregon Mortgage Lender Law; and that The Home Loan Store of Grants Pass will fully comply with the terms and conditions stated herein.

The Home Loan Store of Grants Pass understands that this Consent Order is a public document.

Dated this 29 day of Nov. 2011

By /s/ Dixie Smith
Dixie Smith

Office Held

ENTITY ACKNOWLEDGMENT

There appeared before me this 29 day of Nov 2011 who was first duly sworn on oath, and stated that she was and is an officer of The Home Loan Store of Grants Pass and that she is authorized and empowered to sign this Consent to Entry of Order on behalf of The Home Loan Store of Grants Pass, and to bind The Home Loan Store of Grants Pass to the terms hereof.

/s/Anne M. Hoover
Notary Public for the State of Oregon
My commission expires: 12/05/2013

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CONSENT TO ENTRY OF ORDER

I, Dixie Smith, state that I have read the foregoing Order and that I know and fully understand the contents hereof; that the factual allegations stated herein are true and correct; that I have been advised of my right to a hearing and of the right to be represented by counsel in this matter; that I voluntarily consent to the entry of this Order without any force or duress, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further actions against me to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities or Oregon Mortgage Lending Law; and that I will fully comply with the terms and conditions stated herein.

I understand that this Consent Order is a public document.

Dated this 29 day of Nov, 2011.

/s/ Dixie Smith
Dixie Smith

SUBSCRIBED AND SWORN to before me this 29 day of Nov, 2011.

/s/ Anne M. Hoover
(Printed Name of Notary Public)
Notary Public Anne M. Hoover
for the State of: Oregon

My commission expires: 12/05/2013

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