

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

STATE OF IDAHO, Department of Finance,
Securities Bureau,

Complainant,

vs.

Raymond Eugene Brooks,

Respondent.

Docket No. 2017-7-15-O

AGREEMENT AND ORDER

The Director of the Department of Finance, State of Idaho ("Director") has instituted an investigation into the conduct of Raymond Eugene Brooks. Pursuant to said investigation, it appears that violations of the *Idaho Uniform Securities Act (2004)* ("Act"), *Idaho Code §30-14-101 et seq.* have occurred. The Director and Raymond Eugene Brooks have agreed to resolve this matter without a public hearing. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order ("Order") be entered and the Respondent consents to the entry of this Order.

RESPONDENT

1. **Raymond Eugene Brooks** ("Brooks") is a 76 year-old male with a last known address of 5436 East Estate Ridge Road, Anaheim, California. He has been licensed with the State of California's Insurance Department since 2002. Brooks registered with the State of California as a broker-dealer agent and as a registered investment advisor in 2002 and 2003, respectively. He registered as a broker-dealer representative with the Financial Industry Regulatory Authority ("FINRA") in 2002 and received a Central Registration Depository ("CRD") number of 4547443. As of 2003, Brooks was no longer registered to sell securities or provide investment advice.

BACKGROUND

2. Woodbridge Mortgage Investments Funds 1, 2, 3, 3A, 4, and 5 ("Woodbridge") are commercial mortgage lenders that lend money to commercial borrowers in exchange for a

first position mortgage on the borrower's commercial real estate. Woodbridge funded the commercial loans with money they raised by selling securities in the form of investment contracts. Woodbridge sold the investment contracts as First Position Commercial Mortgage Loans ("FPCM"). The investment contracts were sold to investors in conjunction with the issuance of one-year promissory notes issued by Woodbridge.

3. Woodbridge pooled FPCM investor proceeds and when sufficient money to fund the commercial loan was raised, the transaction was finalized and Woodbridge obtained a legally recorded first position mortgage on the property. After obtaining a first position mortgage on the property, Woodbridge purportedly assigned a portion mortgage of its first position on the property to FPCM investors.
4. Woodbridge, and their affiliates, filed for chapter 11 bankruptcy on December 4, 2017 citing "unforeseen costs associated with ongoing litigation and regulatory compliance."
5. On December 20, 2017, the Securities and Exchange Commission ("SEC") filed a complaint against Woodbridge and its affiliates, alleging that Robert Shapiro, owner of Woodbridge, conducted a nationwide Ponzi scheme that raised over \$1.22 billion from over 8,400 investors. The complaint asserts that Woodbridge issued unregistered securities in the form of promissory notes and paid unregistered agents to sell the investments.
6. At no time were Woodbridge's investment contracts or promissory notes, for the FPCM loans, registered as securities in Idaho nor did they qualify for an exemption.
7. Brooks solicited and sold promissory notes, as an agent of Woodbridge, to at least one trust, FT, which two of the trust beneficiaries are Idaho residents. As trustee, Brooks invested \$25,000 of FT's funds, in approximately July 2017, and Brooks received a commission of \$1,000 from this sale.
8. At the time of the above transaction, Brooks was not registered to sell securities in Idaho, nor did he qualify for an exemption.

FINDINGS OF VIOLATIONS

OFFER & SALE OF UNREGISTERED SECURITIES

9. Investments in investment contracts and promissory notes are “securities” as defined by *Idaho Code §30-14-102(28)*.
10. Pursuant to *Idaho Code §30-14-301*, it is unlawful for a person to offer or sell a security in this state unless: (a) The security is a federal covered security; (b) The security, transaction or offer is exempted from registration under sections 30-14-201 through 30-14-203, Idaho Code; or (c) The security is registered under this chapter.
11. *Idaho Code §30-14-202(11)* provides an exemption for transaction in a note... or other evidence of indebtedness secured by a mortgage or other security agreement if the note... or other evidence of indebtedness is offered and sold with the mortgage or other security agreement as a unit.
12. The *Idaho Administrative Code 12.01.08 Rule 55(2)* clarifies that “offered and sold as a unit” means the offer and sale of the entire mortgage or other security agreement to a single purchaser at a single sale.
13. Woodbridge promissory notes are sold to a "pool" of investors and do not qualify for the exemption provided in *§30-14-202(11)*. The exemption is not available for sales of fractional interests in a promissory note (or the "pooling" of multiple investors funds to purchase a single underlying mortgage).
14. Brooks sold securities in the form of investment contracts and promissory notes. The securities were not registered, nor did they qualify for a registration exemption at the time they were sold, in violation of *Idaho Code §30-14-301*.

OFFER & SALE OF SECURITIES BY AN UNREGISTERED AGENT

15. *Idaho Code §30-14-102(2)* defines an “agent” as an individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of

securities or who represents an issuer in effecting or attempting to effect purchases or sales of the issuer's securities.

16. Pursuant to *Idaho Code §30-14-402*, it is unlawful for an individual to transact business in this state as an agent unless the individual is registered under this chapter as an agent or is exempt from registration as an agent under subsection (b) of this section.
17. Brooks offered and sold Woodbridge promissory notes to an Idaho resident. Brooks was not registered to sell securities, nor did he qualify for a registration exemption at the time the securities were sold, in violation of *Idaho Code §30-14-402*.

FRAUD PROVISIONS

18. Pursuant to *Idaho Code §30-14-501*, it is unlawful for any person, in connection with the offer, sale, or purchase of a security, directly or indirectly: (2) To make an untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
19. Omissions:
 - a. Brooks failed to disclose that that the security being offered was not registered as required under the Idaho Uniform Securities Act.
 - b. Brooks failed to disclose that that he was not registered as an agent to sell the securities being offered as required by the Idaho Uniform Securities Act.
20. Brooks violated *Idaho Code §30-14-501(2)* by omitting material facts in connection with the sale of a security.

ACKNOWLEDGMENT AND REMEDIES

21. Brooks agrees to the entry of the Order.
22. Brooks admits the findings of violations of Idaho law set forth in this Order.

23. Brooks agrees to pay restitution in the amount of one thousand dollars (\$1,000). Said restitution is to be paid not later than thirty (30) days from the date the Director executes this Order. Payment shall be made to the "Idaho Department of Finance."
24. Brooks agrees to pay a civil penalty of three thousand dollars (\$3,000) for the violations of the Act, pursuant to *Idaho Code §30-14-604(d)*. Said civil penalty is to be paid not later than thirty (30) days from the date the Director executes this Order. Payment shall be made to the "Idaho Department of Finance."
25. Brooks agrees to not now, nor in the future, offer or sell securities in, into, or from Idaho without complying with the requirements of the Act and its rules.
26. In the event that the Brooks commits future violations of the Act or fail to adhere to the terms of this Order, Brooks acknowledges that the Idaho Department of Finance can incorporate the allegations giving rise to this Order in any future proceeding.

AGREED TO and ACKNOWLEDGED this 29TH day of NOVEMBER, 2018.


RAYMOND EUGENE BROOKS

IT IS SO ORDERED

DATED this 10TH day of DECEMBER, 2018.

STATE OF IDAHO
DEPARTMENT OF FINANCE


GAVIN M. GEE, Director of Finance

