

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-07-069-10-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND
) NOTICE OF INTENT TO ENTER
David R. Huetten,) ORDER TO CEASE AND DESIST,
d/b/a DRH Funding,) IMPOSE A FINE, AND
d/b/a DRH Investment Corp.,) RECOVER COSTS
d/b/a D R H One, Inc.,)
Respondent)

THE STATE OF WASHINGTON TO: David R. Huetten

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent David R. Huetten, d/b/a DRH Funding, d/b/a DRH Investment Corp., d/b/a D R H One, Inc., has violated the Securities Act of Washington and that his violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations, to impose a fine, and recover costs. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondent

1. David R. Huetten ("Huetten") is an Oregon resident who previously did business under the name DRH Funding as well as DRH Investment Corp. and D R H One, Inc., two Washington corporations that he formed. Huetten used addresses in Washington and Oregon for these businesses during the relevant time period.

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

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 Nature of the Offering

2 2. Between approximately 2004 and 2006, Huetten raised more than \$3 million
3 through the offer and sale of interests in various limited liabilities companies (LLC's) to
4 dozens of investors, most of whom were residents of Washington. As described in detail
5 below, Huetten formed a number of LLC's in connection with various real estate investment
6 programs that he offered. Investors in Huetten's investment programs received a percentage
7 ownership interest in an LLC that was proportional to the amount of their investment.
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9 3. In some of Huetten's investment programs, investor funds were to be pooled and
10 used to acquire and operate a specific apartment complex located in Texas. Huetten indicated
11 that he would improve the apartment complex, and sell it at a profit within a period of three to
12 six years. In other investment programs, investor funds were to be pooled and transferred to
13 specified third parties as part of real estate development projects. Investors in Huetten's
14 investment programs were largely passive and did not actively participate in the management
15 of the apartment complexes or the real estate development projects. Investors relied on
16 Huetten and other third parties to generate a return on their investment.
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18 4. Huetten received fees in connection with his investment programs, including a
19 "consultation" fee payable to one of his corporations that was based on the price of the
20 properties that were acquired by the LLC's, as well as a monthly management fee that was
21 based on the rent that was collected from the apartment complexes.
22

23 5. Huetten found investors in a number of ways. Huetten taught adult continuing
24 education courses on real estate investing at several community colleges throughout western
25

1 Washington. Huetten used this position of trust and confidence to sell his investment
2 programs. Huetten also solicited prospective investors through his websites,
3 drhrealstate.com and drhfunding.com, which described his various investment programs and
4 the projected annual returns. Through his websites, Huetten marketed his investment
5 programs to investors who were “[l]ooking for low risk, high return investment opportunities
6 in real estate.” One of Huetten’s websites indicated that investments in apartments were
7 “Low risk and high return.”
8

9 6. As described in detail below, Huetten also solicited prospective investors by e-
10 mail. Huetten attached offering material to some of his e-mails, including a three page
11 document that was referred to as an “Investor Package” which contained a summary of the
12 investment program. Huetten arranged for interested investors to sign subscription
13 agreements and had them deposit funds into bank accounts in the name of each investment
14 program.

15 Cavender Gardens Partners, LLC Offering

16 7. In 2004, Huetten raised approximately \$600,000 from more than two dozen
17 investors through the offer and sale of interests in Cavender Gardens Partners, LLC
18 (“Cavender Garden”), a Texas company that was formed to purchase and operate an
19 apartment complex in Hurst, Texas. On or about March 27, 2004, Huetten sent an e-mail to
20 prospective investors regarding Cavender Gardens, which included an Investor Package with
21 details of the offering. The Investor Package also included a schedule of projected annual
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1 returns ranging from approximately 12.5% in the first year of the investment to more than
2 15% in the sixth year of the investment.

3 Broadmoor Partners, LLC Offering

4 8. Between 2004 and 2005, Huetten raised more than \$350,000 from more than a
5 dozen investors through the offer and sale of interests in Broadmoor Partners, LLC
6 (“Broadmoor”), a Texas company that was formed to purchase and operate an apartment
7 complex in Fort Worth, Texas. In November 2004, Huetten sent out e-mails to prospective
8 investors with offering material regarding the Broadmoor investment program, including an
9 “Investors Package.” The Investors Package included details of the offering and a schedule of
10 projected annual returns, which ranged from approximately 11% in the first year of the
11 investment to approximately 23% in the sixth year of the investment. Additional offering
12 material regarding the Broadmoor investment program was available on Huetten’s website,
13 drhrealstate.com.
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15 Saginaw Crossings Partners, LLC Offering

16 9. In 2005, Huetten raised approximately \$1 million from more than 30 investors
17 through the offer and sale of interests in Saginaw Crossings Partners, LLC (“Saginaw”), a
18 Texas company that was formed to purchase and operate an apartment complex in Saginaw,
19 Texas. Huetten sent e-mails to prospective investors regarding the Saginaw investment
20 program, which included an Investor Package, financial projections, and an LLC operating
21 agreement. Huetten’s website, drhrealstate.com, also included information relating to the
22 Saginaw offering, including photos of the apartment complex that was to be acquired, and a
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1 schedule of projected annual returns, which ranged from approximately 12% in the first year
2 of the investment, to over 19% in the sixth year of the investment.

3 Garden Heights Partners, LLC Offering

4 10. In 2005, Huetten raised more than \$500,000 from approximately a dozen
5 investors through the offer and sale of interests in Garden Heights Partners, LLC (“Garden
6 Heights”), a Washington company that was formed as part of a real estate development
7 project in Forth Worth, Texas. According to offering materials for Garden Heights, investors
8 would “pool their capital” and loan it to a specified third party company as part of a joint
9 venture. The third party company was to use the funds to purchase land and for other
10 preliminary development costs associated with constructing eight luxury townhouses. The
11 third party was to pay 10% interest on the funds and a portion of the net sales profits from the
12 projects. On or about October 12, 2005, Huetten sent an e-mail to prospective investors
13 regarding the Garden Heights investment program, which stated: “We are looking for
14 \$500,000. Investors will receive a 10% interest PLUS a share of the profits. This could yield
15 you a total project return of 54% over approximately two years or less.”
16

17 Mansfield Land Development Partners, LLC Offering

18 11. In 2006, Huetten raised approximately \$460,000 from ten investors through the
19 offer and sale of interests in Mansfield Land Development Partners, LLC (“Mansfield”), a
20 Washington company that was formed as part of a residential property development project in
21 Mansfield, Texas. According to its operating agreement, Mansfield investors would “pool
22 their capital” for the purpose of buying shares in another specified company, which would use
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24

1 the funds to purchase a 138 acre parcel of land and for preliminary development costs. The
2 operating agreement further stated: "In return for the loan of money, the members expect an
3 80% APR interest rate on their loaned capital."

4 12. On or about July 25, 2006, Huetten sent an e-mail to prospective investors
5 regarding Mansfield with the subject line: "100% APR for accredited [sic] investors only."
6 The e-mail further stated that it was an "incredible opportunity to dramatically increase your
7 net worth" and that "This deal pays a 100% APR secured by real estate." The e-mail also
8 stated that "We are looking for a pool of investors to deal the deal. Minimum participation
9 will be \$100K."

10 13. On or about August 8, 2006, Huetten sent another e-mail to prospective
11 investors regarding Mansfield that stated: "Here is your chance to make 80% APR on a one
12 year investment." The e-mail further stated: "Your return will be 80% APR. The term of the
13 note will be one year. At that time you will be cashed out and interest will be paid. In other
14 [words], a \$50,000 investment will get you back \$90,000 in 12 months. All of this will be
15 secured by a note and deed of trust on the property." Huetten also provided investors with a
16 Mansfield Land Note Offering Circular, which represented that "With some preliminary land
17 development, the value will increase exponentially."
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20 Misrepresentations and Omissions

21 14. In the offer and sale of the investments described above, Huetten made material
22 misrepresentations and omissions to investors. As described above, Huetten disseminated
23 misleading e-mail solicitations that led investors to believe they could earn extraordinary
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1 returns of up to 100%. The e-mail offers failed to disclose the basis and assumptions for these
2 purported returns, and the specific risks associated with each investment program. While
3 Huetten's website misleading portrayed his investments as "Low risk and high return", they in
4 fact involved significant risk.

5 15. Huetten provided investors with a one-paragraph "disclaimer" to sign, which
6 stated that the investment "involves a high degree of risk, risk common to the ownership of
7 real estate." Such a disclaimer did not cure the misleading nature of Huetten's e-mail
8 solicitations or provide investors with meaningful disclosure of the specific risks involved in
9 each investment program. Among other things, Huetten failed to disclose the specific risks
10 associated with investing in older apartment complexes (the complexes described above were
11 built in 1965, 1972, and 1985 and were "C+ quality" properties) such as the risk that
12 substantial additional capital would be required to rehabilitate and repair the properties, as
13 well as associated regulatory risks. For example, one apartment complex was represented to
14 be in "very good condition for its age with no significant maintenance issues." In fact, the
15 property had substantial maintenance issues such as plumbing problems and rotting balconies,
16 and city inspectors would not allow unoccupied apartments to be rented until costly repairs
17 were made. The property was ultimately sold in foreclosure, and investors lost their
18 investment capital.
19

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21 16. For the investment programs involving transferring investor funds to third
22 parties for construction projects, Huetten failed to disclose the risk that the third parties could
23 default on their obligations and the significant risks associated with the construction projects
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1 such as cost overruns and delays, the risk of having insufficient funds to complete the
2 projects, and environmental and regulations that could affect the value of the property.

3 Registration Status

4 17. Respondent David R. Huetten is not currently registered as a broker-dealer or
5 securities salesperson in the State of Washington and has not previously been so registered.

6 18. The limited liability company interests in Cavender Gardens Partners, LLC;
7 Broadmoor Partners, LLC; Saginaw Crossings Partners, LLC; Garden Heights Partners, LLC;
8 and Mansfield Land Development Partners, LLC are not currently registered in the State of
9 Washington, have not previously been so registered, and no claim of exemption for said
10 securities is on file with the Securities Division.
11

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

13 **CONCLUSIONS OF LAW**

14 1. The offer or sale of the investments described above each constitutes the offer or
15 sale of a security as defined in RCW 21.20.005(10) and (12).

16 2. Respondent David R. Huetten has violated RCW 21.20.140, the securities
17 registration provision of the Securities Act of Washington, by offering or selling said securities
18 while no registration for such offer or sale was on file with the Division.

19 3. Respondent David R. Huetten has violated RCW 21.20.040 by offering or selling
20 said securities while not registered as a securities salesperson or broker-dealer in the State of
21 Washington.
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1 **AUTHORITY AND PROCEDURE**

2 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
3 and is subject to the provisions of RCW 34.05. The Respondent may make a written request for
4 a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY
5 FOR HEARING accompanying this order.
6

7 If a Respondent does not request a hearing, the Securities Administrator intends to adopt
8 the above Tentative Findings of Fact and Conclusions of Law as final, enter a final order to cease
9 and desist as to that Respondent, and impose the fines and costs sought.
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11 Dated and Entered this 11th day of April, 2011.

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14 WILLIAM M. BEATTY
15 Securities Administrator

16 Approved by:

17 

18 Suzanne E. Sarason
19 Chief of Enforcement

Presented by:

20 

21 Robert Kondrat
22 Enforcement Attorney
23
24