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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

Arizona Corporation Commission

DOCKETED

OCT 19 2008

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In the matter of:
DEAN A. SEVERNS, a married man
CHERYL E. SEVERNS, a married woman
SEVERNS PROPERTIES, LLC, an Arizona limited liability company
SEVERNS CAPITAL, LLC, an Arizona limited liability company
J.DEAN, LLC, an Arizona limited liability company
Respondents.

DOCKET NO. S-20634A-08-0519
NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST, ORDER FOR RESTITUTION, FOR ADMINISTRATIVE PENALTIES AND FOR OTHER AFFIRMATIVE ACTION

AZ CORP COMMISSION
DOCKET CONTROL
2008 OCT -9 P 2: 20
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**NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING
EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents DEAN A. SEVERNS, CHERYL E. SEVERNS, SEVERNS PROPERTIES, LLC, an Arizona limited liability company, SEVERNS CAPITAL, LLC, an Arizona limited liability company, and J.DEAN, LLC, an Arizona limited liability company, have engaged in acts, practices, and transactions that constitute violations of the

1 Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act") and that DEAN A. SEVERNS
2 and CHERYL E. SEVERNS controlled SEVERNS PROPERTIES, LLC, SEVERNS CAPITAL,
3 LLC, and J.DEAN, LLC within the meaning of A.R.S. § 44-1999.

4 **I.**

5 **JURISDICTION**

6 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
7 Arizona Constitution and the Securities Act.

8 **II.**

9 **RESPONDENTS**

10 2. At all times material hereto, DEAN A. SEVERNS was residing in Arizona.

11 3. At all times material hereto, CHERYL E. SEVERNS was residing in Arizona.

12 4. DEAN A. SEVERNS and CHERYL E. SEVERNS, are husband and wife. At all
13 times relevant, DEAN A. SEVERNS and CHERYL E. SEVERNS have been acting for their own
14 benefit and for the benefit or in furtherance of their marital community.

15 5. SEVERNS PROPERTIES, LLC is an Arizona limited liability company organized
16 on or about July 5, 2005.

17 6. According to Commission records, DEAN A. SEVERNS and CHERYL E.
18 SEVERNS are the sole members and managers of SEVERNS PROPERTIES, LLC

19 7. SEVERNS CAPITAL, LLC is an Arizona limited liability company organized on
20 or about April 27, 2007.

21 8. According to Commission records, DEAN A. SEVERNS and CHERYL E.
22 SEVERNS are the sole members and managers of SEVERNS CAPITAL, LLC.

23 9. J.DEAN, LLC is an Arizona limited liability company organized on or about
24 November 9, 2006.

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1 purchase a single property, an apartment complex, to renovate it and then resell it as
2 condominiums. The project was Mountain View Apartments ("Mountain View").

3 18. DEAN A. SEVERNS and CHERYL E. SEVERNS held investor meetings for actual
4 and/or potential MBIG investors in which DEAN A. SEVERNS discussed the investment and the
5 MBIG group.

6 19. CHERYL E. SEVERNS offered Investments to at least one MBIG investor.
7 CHERYL E. SEVERNS made statements to that investor regarding the investment.

8 20. DEAN A. SEVERNS presented to the investors Mountain View as the property that
9 he selected for the MBIG group investment. Additionally, he presented goals for the MBIG group
10 to achieve and needs that the MBIG group could satisfy. Those goals and needs included the
11 following: "increase net worth, to leave a legacy/generational education and wealth, retirement,
12 security, life force, inspiration, life style, money leverage, guidance, and freedom."

13 21. DEAN A. SEVERNS failed to provide material information regarding the
14 evaluation of the investment. The MBIG presentations included listing the "DEAL
15 EVALUATION" factors for the investment (such as highest and best use, acquisition price vs.
16 appraised value, cash flow, terms, future potential, short term vs. long term and realtor application).

17 22. The MBIG investors were not told the interest rate of the loan used to purchase the
18 property, the length of the loan, whether the property would be refinanced to support the
19 rehabilitation, the timeframe for completing the rehabilitation, contingency plans for cost overruns,
20 and marketing plans to sell the individual condominiums.

21 23. Many of the MBIG investors were unsophisticated and inexperienced in investing.
22 DEAN A. SEVERNS used a reference to Mother Theresa, biblical quotes, and his own pursuit of
23 money to discuss investing. DEAN A. SEVERNS suggested the book, "The Millionaire Next
24 Door," to the investors as a reading assignment.

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1 24. DEAN A. SEVERNS told MBIG investors that the investment was safe. DEAN A.
2 SEVERNS told the MBIG investors that he did not need or want their money ([he] “had millions in
3 personal wealth”) and had access to two hundred million dollars (\$200,000,000) in private money.

4 25. DEAN A. SEVERNS told MBIG investors that their promissory notes would be
5 secured by the purchase of the real estate.

6 26. DEAN A. SEVERNS promised MBIG investors a rate of return of 10-14% for a
7 term of 360 days in addition to a return of 10% as part of a profit pool, depending upon the success
8 of the investment. DEAN A. SEVERNS or SEVERNS PROPERTIES, LLC, through DEAN A.
9 SEVERNS, issued unsecured promissory notes with an interest rate of 14% to the MBIG investors.
10 The 10% profit pool was not included in the promissory notes.

11 27. DEAN A. SEVERNS and CHERYL E. SEVERNS failed to provide information
12 sufficient to give investors full disclosure regarding their real estate investment experience. DEAN
13 A. SEVERNS told MBIG investors that he had many years of experience in real estate investing,
14 including investments in duplexes and fourplexes. However, DEAN A. SEVERNS failed to
15 disclose to at least one MBIG investor that he did not have experience converting an apartment
16 complex into condominiums to sell as individual units.

17 28. DEAN A. SEVERNS failed to provide information sufficient to give investors full
18 disclosure regarding the experience of those persons hired to convert the Mountain View
19 apartments into condominiums. DEAN A. SEVERNS told at least one MBIG investor that he
20 would hire an experienced contractor to manage the reconstruction of the Mountain View property.
21 DEAN A. SEVERNS hired a licensed contractor with no history of managing the conversion of an
22 apartment complex to condominiums to oversee the Mountain View project.

23 29. DEAN A. SEVERNS instructed MBIG investors to make their funds payable to
24 SEVERNS PROPERTIES. On or about April 2006, SEVERNS PROPERTIES, LLC became the
25 owner of the Mountain View property. DEAN A. SEVERNS acted as the buyer’s agent, arranged
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1 the financing, and signed the real estate contracts on behalf of SEVERNS PROPERTIES, LLC.
2 None of the MBIG investors were listed on the property deed.

3 30. DEAN A. SEVERNS and CHERYL E. SEVERNS failed to disclose to the MBIG
4 investors that there would be more than one property purchased with MBIG investor funds. DEAN
5 A. SEVERNS, on behalf of SEVERNS PROPERTIES, LLC, contracted to purchase at least three
6 other properties using MBIG investor funds: another apartment complex to be converted into
7 condominiums, a parcel with a storage building on it, and vacant land.

8 31. At least two of the additional properties contracted for purchase resulted in the loss
9 of MBIG investor funds. In one instance, investor funds used to make the escrow deposit were lost
10 on a property that did not close. In another instance, investor funds used to make monthly
11 mortgage payments were lost when the property was foreclosed upon.

12 32. DEAN A. SEVERNS told at least one MBIG investor prior to investing that he
13 would not earn commissions through the use of investor funds or money on the investor funds.
14 DEAN A. SEVERNS earned a commission on at least one property while acting as buyer's and/or
15 seller's agent on behalf of SEVERNS PROPERTIES, LLC.

16 **B. INVESTORS-4-INVESTORS (I4I), SEVERNS PARTNERS, and**
17 **SUBSEQUENT INVESTORS**

18 33. Beginning in or around November 2006, DEAN A. SEVERNS and CHERYL E.
19 SEVERNS disbanded MBIG in favor of a new real estate investment group called Investors-4-
20 Investors (I4I) to offer and sell Investments. According to an I4I investor presentation, I4I "was
21 created from a vision by Dean and Cheryl Severns." A majority of the MBIG investors were
22 merged into I4I without their consent.

23 34. After merging MBIG and I4I, DEAN A. SEVERNS and CHERYL E. SEVERNS
24 continued the investor meetings as I4I. As compared to the MBIG investment group, there were at
25 least two changes to the I4I investment group: an increase in the number of investments being
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1 offered and the introduction of the concept of a Power Team, whereby existing investors would
2 bring in new investors and their funds to I4I.

3 35. DEAN A. SEVERNS told at least one I4I investor that the investments were safe
4 regardless of market conditions. DEAN A. SEVERNS told at least one I4I investor the structure of
5 the investments made them "bullet proof," that investor funds were secured by real estate assets,
6 that he did not need any of the investor money, and that he was worth millions.

7 36. DEAN A. SEVERNS told the I4I investors that "[I4I] would not go under contract
8 without at least 30% of total financing from Investors 4 Investors, therefore I will personally invest
9 a maximum of 70% from my personal funds." One property went under contract for \$800,000, but
10 \$744,000 was financed with unsecured promissory notes.

11 37. DEAN A. SEVERNS told at least one I4I investor prior to investing about a return
12 matrix which showed what an investor could expect to earn as a return if they invested with him.
13 The matrix showed a return of 8% to 30% based upon investing an amount from \$10,000 to
14 \$500,000. Additionally, documents were provided showing examples of investment returns over
15 eight years using funds from a Home Equity Line of Credit or other investment funds.

16 38. The I4I investors received unsecured promissory notes with an interest rate of 14%
17 for a term of 360 days or unsecured promissory notes with an interest rate of 14% in addition to a
18 payment of between 0-2 points. DEAN A. SEVERNS directed the investors to make their funds
19 payable to SEVERNS PROPERTIES, LLC. DEAN A. SEVERNS, on behalf of SEVERNS
20 PROPERTIES and SEVERNS CAPITAL, LLC, issued the unsecured promissory notes. DEAN
21 A. SEVERNS did not disclose to at least one investor that one entity would receive the funds but
22 another entity would be the issuer of the unsecured promissory note.

23 39. Beginning in or around June 2007, DEAN A. SEVERNS and CHERYL E.
24 SEVERNS changed the name of the investment group from I4I to Severns Partners. In addition to
25 the investors who joined MBIG, I4I, or Severns Partners, DEAN A. SEVERNS solicited additional
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1 investors (the additional investors may be referred to as “subsequent investors,” and MBIG, I4I,
2 Severns Partners and any subsequent investors may be collectively referred to as “investors”).

3 40. DEAN A. SEVERNS failed to disclose to at least one I4I, one Severns Partners
4 investor and one subsequent investor prior to their investment that there had been a loss of investor
5 funds in investment properties.

6 41. DEAN A. SEVERNS offered at least one I4I investor opportunities in properties,
7 including vacant land, an apartment complex and an office building. DEAN A. SEVERNS
8 selected the properties for the investments and signed the contracts on behalf of SEVERNS
9 PROPERTIES, LLC.

10 42. DEAN A. SEVERNS told at least one I4I investor the investment funds were
11 applied to the purchase of an office building, and told at least one subsequent investor and one
12 Severns Partners investor that their money was used for an unspecified real estate project.
13 However, the I4I investor did not receive any form of documentation indicating the investor funds
14 were applied to the purchase of the office building. The subsequent investor and Severns Partners
15 investor were not told which real estate project their funds were used for.

16 43. DEAN A. SEVERNS told at least two subsequent investors and at least one Severns
17 Partners investor their investment funds were safe. DEAN A. SEVERNS told at least one of the
18 subsequent investors he had millions in wealth to pay off the promissory notes.

19 44. The majority of the investors receiving unsecured promissory notes issued from
20 SEVERNS CAPITAL, LLC had interest rates of 14%, while some had 8%, in addition to between
21 zero and two points and a term of 360 days.

22 45. DEAN A. SEVERNS encouraged at least one subsequent investor to purchase an
23 unsecured promissory note from J.DEAN, LLC in order to fund the investor’s home remodeling
24 project. DEAN A. SEVERNS, on behalf of J.DEAN, LLC, issued a promissory note with an 8%
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1 return on funds and a due date of 360 days. J.DEAN, LLC did not pay interest, did not return the
2 principal after 360 days, and did not start the remodeling work.

3 **C. GENERAL ALLEGATIONS**

4 46. Many of the investors did not have readily available funds to invest. The
5 Respondents solicited the investors to fund their investments by using their homes by taking out a
6 Home Equity Line of Credit ("HELOC") and/or withdrawing the equity from their homes using a
7 first deed of trust, and using funds in IRA accounts. At least one I4I investor was shown a chart
8 showing the gains from investing even after paying the HELOC loan.

9 47. SEVERNS PROPERTIES, LLC, through DEAN A. SEVERNS and CHERYL E.
10 SEVERNS, purchased or attempted to purchase properties using investor funds.

11 48. CHERYL SEVERNS sent investors quarterly statements showing the investors their
12 investment activity. The Statement of Account showed the date invested, amount invested, interest
13 rate percent, accrued interest earned, interest paid, date paid and account balance.

14 49. DEAN A. SEVERNS and CHERYL E. SEVERNS controlled the Respondents'
15 accounts. This included reviewing bills, paying bills, writing checks, transferring funds, and
16 paying investors, including interest payments, HELOC payments, and the return of one investor's
17 investment funds.

18 50. DEAN A. SEVERNS told investors that the investors could call their unsecured
19 promissory notes due and the notes would be paid. When the investors called their funds, DEAN
20 A. SEVERNS offered to pay draws (representing future profits from the investment), offered
21 employment with the company, offered to issue new promissory notes with revised interest rates,
22 offered to pay the interest on the investor HELOC loans, or offered to pay investors when the
23 Mountain View projected was refinanced in 2007.

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1 51. DEAN A. SEVERNS, on behalf of SEVERNS PROPERTIES, LLC, refinanced the
2 Mountain View property on or about November 2007, but did not return any funds to an investor
3 who was promised a return after the refinancing was completed.

4 52. Some of the investors received funds to pay their HELOC payments for a few
5 months, but then the payments stopped.

6 53. DEAN A. SEVERNS and CHERYL E. SEVERNS, on behalf of SEVERNS
7 PROPERTIES, LLC, sold at least one of the properties in or around January 2008 that was
8 purchased with investor funds. DEAN A. SEVERNS entered into an agreement whereby the sale
9 included a lease carry back provision on a portion of the sales price. None of the proceeds from the
10 sale or the lease carry back were returned to the investors.

11 54. Respondents failed to disclose to at least one investor that they used investor funds
12 to pay operation expenses of other entities which DEAN A. SEVERNS and CHERYL E.
13 SEVERNS were members and/or managers, as well as the personal expenses of DEAN A.
14 SEVERNS and CHERYL E. SEVERNS (including but not limited to, car loans, mortgages and
15 travel), and the purchase of vacation and/or resort property.

16 55. The Respondents failed to disclose to at least one investor that investor funds were
17 used to repay at least one other investor's investment and to make investors' HELOC payments
18 and interest payments.

19 56. The Respondents did not provide at least one investor with any offering documents,
20 financial information, or the basis for the projected costs and/or projected sales regarding property
21 purchases financed by the investors.

22 57. The investors lost a majority of their investor funds. At least one subsequent
23 investor is now facing the loss of their home.

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1 IV.

2 VIOLATION OF A.R.S. § 44-1841

3 (Offer or Sale of Unregistered Securities)

4 58. From on or about January 2006 until at least December 2007, the Respondents
5 offered or sold securities in the form of promissory notes or investment contracts within or from
6 Arizona.

7 59. The securities referred to above were not registered pursuant to Articles 6 or 7 of the
8 Securities Act.

9 60. This conduct violates A.R.S. § 44-1841.

10 V.

11 VIOLATION OF A.R.S. § 44-1842

12 (Transactions by Unregistered Dealers or Salesmen)

13 61. From on or about January 2006 until at least December 2007, DEAN A. SEVERNS,
14 SEVERNS PROPERTIES, LLC, SEVERNS CAPITAL, LLC, and J. DEAN, LLC offered or sold
15 securities in the form of promissory notes and/or investment contracts within or from Arizona while
16 not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

17 62. This conduct violates A.R.S. § 44-1842.

18 VI.

19 VIOLATION OF A.R.S. § 44-1991

20 (Fraud in Connection with the Offer or Sale of Securities)

21 63. In connection with the offer or sale of securities within or from Arizona,
22 Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made
23 untrue statements of material fact or omitted to state material facts that were necessary in order to
24 make the statements made not misleading in light of the circumstances under which they were
25 made; or (iii) engaged in transactions, practices, or courses of business that operated or would
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1 operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not
2 limited to, the following:

3 a) Failing to disclose that investor funds would be used for personal use or
4 benefit, including but not limited to, the payment of car loans, mortgages and travel, and to purchase
5 vacation and/or resort property;

6 b) Failing to disclose that investor funds would be used to repay other investors;

7 c) Failing to disclose that investor funds would be transferred to and/or used by
8 other entities where DEAN A. SEVERNS and CHERYL E. SEVERNS were members and
9 managers;

10 d) Failing to disclose any risks associated with the promissory notes, including
11 potential loss of investor funds and that the notes were unsecured;

12 e) Failing to disclose the investment history and/or performance;

13 f) Misrepresenting the nature of the investment, including statements that the
14 investors would have secured interests, that only one property would be purchased with MBIG funds,
15 offering interests in properties that were already under contract, and that DEAN A. SEVERNS would
16 not enter into contracts without a 70% investment by DEAN A. SEVERNS and a 30% investment by
17 I4I;

18 g) Misrepresenting that the entity receiving the funds was not the same entity
19 that issued the unsecured promissory notes;

20 h) Misrepresenting that DEAN A. SEVERNS would not earn commissions
21 through the use of investor funds or money on the investor funds;

22 i) Misrepresenting DEAN A. SEVERNS' real estate investing experience;

23 j) Misrepresenting that the investment was safe, including but not limited to,
24 statements that DEAN A. SEVERNS had his own personal wealth, had access to private money, that
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1 the investors would have secured promissory notes, that the investment was bullet proof, and that
2 investor funds could be returned upon request; and

3 k) Misrepresenting that investors would make substantial profits by investing.

4 64. This conduct violates A.R.S. § 44-1991.

5 65. DEAN A. SEVERNS and CHERYL E. SEVERNS directly or indirectly controlled
6 SEVERNS PROPERTIES, LLC, SEVERNS CAPITAL, LLC, and J.DEAN, LLC by or through
7 membership and/or as managers. Therefore, DEAN A. SEVERNS and CHERYL E. SEVERNS are
8 jointly and severally liable under A.R.S. § 44-1999 to the same extent as SEVERNS PROPERTIES,
9 LLC, SEVERNS CAPITAL, LLC, and J.DEAN, LLC for its violations of A.R.S. § 44-1991.

10 **VII.**

11 **REQUESTED RELIEF**

12 The Division requests that the Commission grant the following relief:

13 1. Order Respondents to permanently cease and desist from violating the Securities Act
14 and, pursuant to A.R.S. § 44-2032;

15 2. Order Respondents to take affirmative action to correct the conditions resulting from
16 Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to
17 A.R.S. § 44-2032;

18 3. Order Respondents to pay the state of Arizona administrative penalties of up to five
19 thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

20 4. Order that the marital community of DEAN A. SEVERNS and CHERYL E.
21 SEVERNS be subject to any order of restitution, rescission, administrative penalties, or other
22 appropriate affirmative action pursuant to A.R.S. § 25-215; and

23 5. Order any other relief that the Commission deems appropriate.
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1 **VIII.**

2 **HEARING OPPORTUNITY**

3 Each Respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-
4 306. **If a respondent requests a hearing, the requesting respondent must also answer this**
5 **Notice.** A request for hearing must be in writing and received by the Commission within 10
6 business days after service of this Notice of Opportunity for Hearing. The requesting respondent
7 must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W.
8 Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by
9 calling (602) 542-3477 or on the Commission's Internet web site at
10 <http://www.azcc.gov/divisions/hearings/docket.asp>.

11 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin
12 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the
13 parties, or ordered by the Commission. If a request for a hearing is not timely made the Commission
14 may, without a hearing, enter an order granting the relief requested by the Division in this Notice of
15 Opportunity for Hearing.

16 Persons with a disability may request a reasonable accommodation such as a sign language
17 interpreter, as well as request this document in an alternative format, by contacting Linda Hogan,
18 ADA Coordinator, voice phone number 602/542-3931, e-mail lhogan@azcc.gov. Requests should
19 be made as early as possible to allow time to arrange the accommodation.

20 **IX.**

21 **ANSWER REQUIREMENT**

22 Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting
23 respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket
24 Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within
25 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from
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1 Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at
2 <http://www.azcc.gov/divisions/hearings/docket.asp>.

3 Additionally, the answering respondent must serve the Answer upon the Division.
4 Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-
5 delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix,
6 Arizona, 85007, addressed to Aikaterine Vervilos.

7 The Answer shall contain an admission or denial of each allegation in this Notice and the
8 original signature of the answering respondent or respondent's attorney. A statement of a lack of
9 sufficient knowledge or information shall be considered a denial of an allegation. An allegation
10 not denied shall be considered admitted.

11 When the answering respondent intends in good faith to deny only a part or a qualification
12 of an allegation, the respondent shall specify that part or qualification of the allegation and shall
13 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

14 The officer presiding over the hearing may grant relief from the requirement to file an
15 Answer for good cause shown.

16 Dated this 9th day of October, 2008.

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18 Mark Dinell
19 Assistant Director of Securities

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