

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**

**OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

W R Rice Financial Services, Inc.  
(CRD No. 36700),

and

Joel I. Wilson (CRD No. 5334955),

Respondents.

DISCIPLINARY PROCEEDING  
No. 2012030531101

**COMPLAINT AND REQUEST FOR EXPEDITED HEARING**

The Department of Enforcement alleges:

**SUMMARY**

1. This case concerns securities fraud perpetrated by Respondent W R Rice Financial Services, Inc. ("WR Rice") and its owner, Respondent Joel I. Wilson ("Wilson"), in connection with customer investments of approximately \$4.7 million in 14 limited partnerships controlled by Wilson. In connection with FINRA's investigation into the fraud, Wilson produced falsified documents to FINRA staff and also walked out of his on-the-record interview ("OTR") after the staff confronted him with several of the falsified documents but before the staff finished questioning him. Wilson's failure to cooperate with the investigation has materially impeded FINRA's inquiry into Respondents' misconduct. Most notably, the staff cannot question Wilson about suspicious withdrawals and transfers from and charges incurred in bank accounts holding the commingled funds of the 14 limited partnerships.

2. From April 2011 through at least September 2012, WR Rice sold interests in private placement offerings of unregistered securities issued by 17 entities – The Diversified Group Land Contract Limited Partnership #1 through #17 (collectively, “LPs” or “LPs 1-17” and individually, “LP 1,” etc.) – which were, and still may be, controlled by Wilson as the owner of the LPs’ general partner – The Diversified Group Partnership Management, LLC (“DGPM”). WR Rice, acting through Wilson and its other registered representatives, intentionally made misrepresentations of a material fact and/or omitted to disclose other material facts to customers, who are predominantly from low to moderate-income households, in connection with its sales of LPs 4-17.

3. Respondents intentionally misrepresented how Wilson intended to use the proceeds raised for LPs 4-17. The offering memoranda for LPs 4-17 (“Offering Memoranda”) required their general partner (DGPM) to purchase servicing rights of land contracts on residential real estate, collect monthly payments from the contracts, and pass the payments on to the investors. However, at the time when the misstatements were made in the Offering Memoranda, Wilson, by his own admission during sworn testimony, had no intention of purchasing land contracts for LPs 4-17. Instead, he intended to, and did, in fact, cause the offering proceeds to be loaned on an unsecured basis to DGPM and American Realty Funds Corporation (“ARF”) – another company that he owned and controlled. In other words, Wilson, acting through entities that he owned and controlled, including WR Rice, raised funds under the auspices that he would invest them in land contracts that had a security interest in specific residential real estate, when, in reality, he raised the funds to make unsecured loans to his companies.

4. Respondents also intentionally omitted to disclose to customers who invested in the LPs after May 31, 2012 that: (a) the due date on the promissory notes issued by DGPM to LPs 1-4 had been extended by over eight years; (b) the due date on the promissory notes issued by ARF to LPs 5-11 had been extended by seven months; and (c) the extensions were “negotiated” by Wilson, acting for both the makers and payees of the notes, because DGPM and ARF did not have enough money to repay the notes.

5. As a result of the foregoing, Respondents willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and also violated FINRA Rules 2020 and 2010.

6. In connection with FINRA’s investigation, Wilson produced falsified limited partnership agreements for the LPs to FINRA staff. Specifically, the signatures of nine investors on the agreements were copied on to the agreements from other documents signed by them. By producing documents to FINRA that he knew, or should have known, had been falsified, Wilson violated FINRA Rules 8210 and 2010.

7. Before FINRA staff had concluded questioning Wilson during his October 16, 2012 OTR, Wilson, based on the advice of his counsel, terminated the proceeding by stating that he would not answer any additional questions. Wilson’s failure to answer all of the staff’s questions has materially impeded FINRA’s investigation of several critical matters, including whether Wilson misappropriated offering proceeds. By failing to provide full and complete testimony to FINRA, Wilson violated FINRA Rules 8210 and 2010.

## RESPONDENTS AND JURISDICTION

### W R Rice Financial Services, Inc.

8. WR Rice is a FINRA member and has been a member since October 17, 1994.

9. Wilson and his former partner, MK, purchased WR Rice in November 2010.

Wilson currently owns at least 95% of the firm.

10. WR Rice maintains its principal place of business in Bay City, Michigan and also has five additional offices. Approximately 18 registered persons and one non-registered person are currently associated with the firm.

11. WR Rice conducts a general retail securities business. From the second quarter of 2011 through the third quarter of this year, the firm generated a significant portion of its total revenue from sales of interests in the LPs.

12. By virtue of its current FINRA membership, FINRA possesses jurisdiction over WR Rice under Article IV of its By-Laws.

### Joel I. Wilson

13. In May 2007, Wilson acquired Series 6 and 63 licenses. He subsequently acquired Series 7, 24, 53, and 65 licenses.

14. At various times between April 27, 2007 and January 15, 2010, Wilson was associated and registered with two FINRA members.

15. Between August 1, 2010 and November 26, 2010, Wilson was associated with Wilson and Kazee Diversified Financial Group LLC, an entity that applied, and ultimately withdrew its application, for FINRA membership.

16. On November 29, 2010, WR Rice filed a Form U4 for Wilson, commencing his association with it as of that date. On November 29, 2010, Wilson became registered with WR

Rice as a Direct Participation Principal (“DPP”), General Securities Principal (“GSP”), General Securities Representative (“GSR”), and Municipal Securities Principal (“MSP”). On November 2, 2011, he became registered with the firm as an Options Professional (“OP”).

17. Wilson served as WR Rice’s President and Executive Principal (beginning in November 2010), Chief Compliance Officer (beginning in March 2011), and CEO (beginning in May 2012), until he relinquished those positions on or about October 15, 2012. That same day, WR Rice terminated Wilson’s registrations with it as a DPP, GSP, MSP, and OP.

18. Wilson is currently associated with WR Rice and registered with it as a GSR.

19. By virtue of his current association and current registration with WR Rice, FINRA possesses jurisdiction over Wilson under Article V of its By-Laws.

## FACTS

### Other Relevant Entities Owned and Controlled by Wilson

#### *American Realty Funds Corporation*

20. ARF, a non-FINRA member, is a publicly-traded company that was incorporated in Tennessee on February 22, 2010.

21. As of August 13, 2012, Wilson and MK each owned 32.19% of the company’s common stock; Wilson’s mother owned 9.33% of its common stock; and Wilson served as the company’s CEO and Chairman of its Board of Directors.

22. ARF purchases, renovates, and sells residential real estate, primarily in the counties of Saginaw, Bay, and Midland, Michigan, which are regions consisting of predominantly low and moderate-income households. The company typically sells its properties under a land contract to buyers who do not have sufficient cash to purchase a property outright and who are unable to obtain traditional mortgage financing. In a typical land contract

transaction, ARF receives a negotiated amount of the purchase price upfront and the remaining portion in monthly installments.

*The Diversified Group Partnership Management, LLC*

23. On or about September 1, 2009, DGPM, a non-FINRA member, filed Articles of Organization with the State of Michigan.

24. Wilson and MK each held a 50% ownership interest in DGPM. As of August 7, 2012, Wilson owned 100% of the company.

25. Wilson served as the Vice-President and later as the President of DGPM, until he relinquished his position as President on or about October 15, 2012.

26. DGPM, like ARF, also acquired, owned, and rehabilitated residential properties in and around the counties of Saginaw, Bay, and Midland, Michigan.

27. As alleged above, DGPM served as the general partner for LPs 1-17.

28. In or about September 2012, ARF acquired all of the assets and liabilities of DGPM. On September 24, 2012, DGPM filed a Certificate of Dissolution with the State of Michigan.

Respondents' Sales of the LPs

29. Between April 2011 and at least September 2012, WR Rice, acting through Wilson and its other registered representatives, sold interests in the LPs to approximately 120 customers from predominantly low to moderate-income households. Through those sales and through investments of distributions from the LPs into other LPs, the customers invested approximately \$5,450,000 in the LPs. The amount of funds raised for each LP ranged from approximately \$168,000 to \$500,000.

30. Respondents employed the means of transportation or communication in interstate commerce, including phone calls to customers, and the use of the mails to send documents to customers concerning the LPs, in connection with their sales of LPs 4-17.

31. For selling interests in the LPs, WR Rice received 10% of the total amount of money invested in them, most of which the firm passed on to its registered representatives. In total, WR Rice received over \$440,000 in compensation for selling the LPs.

32. On or about October 5, 2012, WR Rice sold \$75,000 worth of interests in a related offering – Land Contract Limited Partnership Series II – to customer DC.

Respondents' Misrepresentations and Omissions  
Regarding How LPs 4-17 Were Supposed to Operate

33. The Offering Memoranda, which are all similar and at least one of which was drafted by Wilson, provide that LPs 4-17 will purchase the servicing rights of land contracts on residential real estate in Michigan with an interest rate of 9.9%, collect monthly payments from the land contracts, and pass the payments on to the limited partners or investors. The Offering Memoranda further provide that DGPM, the general partner of the LPs, has agreed to repurchase any property that is subject to default at the remaining principal value of the land contract.

34. The Offering Memoranda disclose that if ARF and DGPM do not have any suitable land contracts to purchase, then DGPM, the general partner of the LPs, may loan the offering proceeds to ARF through a nine-month note with an annual interest rate of 9.9%. However, before Respondents distributed the Offering Memoranda and before they sold interests in LPs 4-17, Wilson, who owned and controlled DGPM, had no intention of purchasing land contracts for LPs 4-17.

35. In fact, DGPM did not purchase servicing rights of any land contracts for LPs 4-17, as provided in the Offering Memoranda.

36. Indeed, Wilson, by his own admission during sworn testimony, never intended to purchase land contracts for LPs 4-17. Instead, when Respondents offered and sold interests in LPs 4-17 to investors, Wilson intended to loan the offering proceeds on an unsecured basis to ARF and DGPM – two companies that he owned and controlled.

37. Between July 2011 and April 2012, DGPM, acting through Wilson or MK, caused the offering proceeds from LPs 5-11 to be loaned to ARF and the offering proceeds from LPs 4 and 12-17 to be loaned to DGPM. The loans total approximately \$4.2 million.

38. The Offering Memoranda do not disclose the possibility that funds could be loaned to DGPM, the general partner of the LPs, or that the determination to make unsecured loans to DGPM and ARF had already been made.

39. The Offering Memoranda also do not disclose the limited operating histories and financial conditions of DGPM and ARF, the two entities to which the unsecured loans were made. Specifically, they do not disclose that the owners and control persons of DGPM and ARF did not have meaningful experience in determining whether a buyer qualified to enter into a land contract and that ARF had incurred net losses since its inception in early 2010.

#### Respondents' Intentional Misrepresentations of a Material Fact

40. In sum, Wilson, acting through entities that he owned and controlled, including WR Rice, raised funds under the auspices that he would invest the proceeds in land contracts, when, in reality, he raised the funds intending to make, and, in fact, making, unsecured loans to his companies.

41. Respondents intentionally failed to disclose to investors in LPs 4-17 of the foregoing material change in the intended uses of their funds.

42. WR Rice customers invested approximately \$4.7 million in LPs 4-17.

### Respondents' Intentional Omissions of Material Facts

43. On or about December 12, 2011, DGPM issued promissory notes totaling approximately \$950,000 to LPs 1-4 that were due and payable on June 1, 2012. Between September 2011 and January 2012, ARF issued promissory notes totaling approximately \$2.1 million to LPs 5-11 that were likewise due and payable on June 1, 2012.

44. On May 31, 2012, Wilson, acting for both the payees of the promissory notes (LPs 1-11) and the makers of the notes (DGPM and ARF) executed two Addendum to Promissory Notes, which extended the due date on the notes issued to LPs 1-4 by over eight years to December 31, 2020, and which extended the due date on the notes issued to LPs 5-11 by seven months to December 31, 2012.

45. Wilson "negotiated" the extensions because DGPM and ARF did not have enough money to repay the promissory notes.

46. Respondents, acting through Wilson and WR Rice's other registered representatives, intentionally omitted to disclose the foregoing material facts – the extensions and reasons therefore – to customers who invested in the LPs after May 31, 2012.

47. After May 31, 2012, WR Rice customers invested approximately \$525,000 in the LPs.

### Wilson's Production of Falsified Documents to FINRA

48. On September 19, 2012, in connection with FINRA's investigation of possible sales practice and other violations by Respondents arising out their sales of the LPs, and pursuant to FINRA Rule 8210, FINRA staff sent a letter to Wilson, wherein the staff requested that he provide it with certain documents, including all limited partnership agreements for the LPs ("LP Agreements") ("September 19<sup>th</sup> Request").

49. Wilson received the September 19<sup>th</sup> Request.

50. In an October 3, 2012 letter, Wilson, through his counsel, provided a written response to the document requests set forth in the September 19<sup>th</sup> Request and also produced documents responsive to the requests, including the LP Agreements.

51. However, the LP Agreements for the following nine investors are falsified documents: MB; SB; LD; LF; MF; LG; WK; ML; and LW.

52. Specifically, the signatures of the customers on the LP Agreements have been copied on to the LP Agreements from other documents signed by them.

53. In addition, before recanting his sworn testimony concerning certain of the falsified LP Agreements, Wilson stated that he had no recollection of ever signing any LP Agreements, which purport to bear his signature.

54. Furthermore, the falsified LP Agreements contain a logo of “The Diversified Group” that was redesigned by Wilson’s sister in July or August of 2011, when she began working for DGPM. However, the falsified LP Agreements purport to be dated on January 1, 2011, and they were purportedly executed at or around the time when each respective investment was made, which was before July 2011, and thus before the logo had been redesigned.

55. When Wilson produced the LP Agreements to FINRA staff, he knew, or should have known, that they had been falsified.

#### Wilson’s Failure to Provide Full and Complete Investigative Testimony

56. On September 28, 2012, in connection with the aforementioned investigation, and pursuant to FINRA Rule 8210, FINRA staff sent a letter to Wilson, wherein the staff requested that he provide investigative testimony at the FINRA Chicago District Office (“Chicago Office”) on October 8, 2012 (“September 28<sup>th</sup> Request”).

57. On October 4, 2012, in connection with the investigation, and pursuant to Rule 8210, the staff sent another letter to Wilson, wherein the staff requested that he also provide investigative testimony at the Chicago Office on October 16, 2012 (“October 4<sup>th</sup> Request”). The staff sent the October 4<sup>th</sup> Request because it believed that it would be unable to complete its questioning of Wilson in one day.

58. Wilson received both the September 28<sup>th</sup> Request and the October 4<sup>th</sup> Request.

59. On October 8, 2012, Wilson provided investigative testimony to FINRA. As anticipated, the staff did not conclude its questioning of him that day.

60. On October 16, 2012, Wilson provided additional investigative testimony to FINRA. However, after the staff confronted Wilson with certain of the falsified LP Agreements and after Wilson answered questions about the LP Agreements, Wilson recanted his sworn testimony concerning the LP Agreements and stated that, based on the advice of his counsel, he would not answer any additional questions that day. And, in fact, he did not answer any additional questions, even after being advised on the record that his refusal to do so could result in a disciplinary action against him.

61. Because Wilson effectively terminated his OTR before the staff concluded its questioning of him, the staff was unable to question Wilson about several other critical matters, including suspicious withdrawals and transfers from and charges incurred in bank accounts maintained by DGPM that contained the commingled funds of the LPs, as well as the funds of other entities owned and controlled by Wilson. For example, the statements for the bank accounts reflect regular cash withdrawals, transfers of funds to an account that appears to have been maintained personally by Wilson, and charges incurred at a hotel/casino in Las Vegas, as well as an ATM withdrawal of over \$500 in Las Vegas.

FIRST CAUSE OF ACTION  
(Fraudulent Misrepresentations and Omissions)  
(Willful Violations of Section 10(b) of the Exchange Act  
and Rule 10b-5 and Violations of FINRA Rules 2020 and 2010)  
(WR Rice and Wilson)

62. The Department realleges and incorporates by reference paragraphs 1 through 61 above.

63. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder make it unlawful for any person, by the use of any means or instrumentality of interstate commerce, or of the mails, to make any untrue statement of a 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, in connection with the purchase or sale of a security.

64. FINRA Rule 2020 likewise provides that: “No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

65. FINRA Rule 2010 requires members and associated persons, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.”

66. In connection with its sales of interests in the private placement offerings of unregistered securities issued by LP 4-17, WR Rice, acting through Wilson and its other registered representatives, intentionally or, at the least, recklessly made untrue statements of a material fact – the intended use of the offering proceeds – to investors in LPs 4-17.

67. In connection with its sales of interests in the private placement offerings of unregistered securities issued by the LPs after May 31, 2012, WR Rice, acting through Wilson and its other registered representatives, intentionally or, at the least, recklessly omitted to state

material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading to persons who invested in the LPs after May 31, 2012. Specifically, the omitted materials facts are that: (a) the due date on the promissory notes issued by DGPM to LPs 1-4 had been extended by over eight years; (b) the due date on the promissory notes issued by ARF to LPs 5-11 had been extended by seven months; and (c) the extensions were “negotiated” by Wilson because DGPM and ARF did not have enough money to repay the notes.

68. Respondents employed the means of transportation or communication in interstate commerce, including phone calls to customers, and the use of the mails to send documents to customers concerning the LPs, in connection with their sales of LPs 4-17.

69. By engaging in the foregoing misconduct, Respondents willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 and also violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION  
(Production of Falsified Documents to FINRA)  
(Violations of FINRA Rules 8210 and 2010)  
(Wilson)

70. The Department realleges and incorporates by reference paragraphs 1 through 69 above.

71. FINRA Rule 8210 requires members, persons associated with a member, and others subject to its jurisdiction to provide documents, information, and sworn testimony to FINRA in connection with, among other things, an investigation or examination.

72. It is axiomatic that documents provided to FINRA must be genuine, and not falsified.

73. In response to the September 19<sup>th</sup> Request, which the staff issued pursuant to FINRA Rule 8210, Wilson provided falsified LP Agreements for the aforementioned nine investors to FINRA staff.

74. By providing documents to FINRA that he knew, or should have known, had been falsified, Wilson violated FINRA Rules 8210 and 2010.

THIRD CAUSE OF ACTION  
(Failure to Provide Full and Complete Investigative Testimony)  
(Violations of FINRA Rules 8210 and 2010)  
(Wilson)

75. The Department realleges and incorporates by reference paragraphs 1 through 74 above.

76. In the October 4<sup>th</sup> Request, which the staff issued pursuant to FINRA Rule 8210, the staff requested that Wilson provide investigative testimony to FINRA at the Chicago Office on October 16, 2012.

77. Wilson received the October 4<sup>th</sup> Request, appeared at the Chicago Office on October 16, 2012, and provided investigative testimony to FINRA that day. However, before the staff had concluded its questioning of Wilson, he terminated the proceeding by informing the staff that he would not answer any additional questions that day.

78. By failing to provide full and complete testimony to FINRA on October 16, 2012, Wilson violated FINRA Rules 8210 and 2010.

**RELIEF REQUESTED**

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;

- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondents willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

**FINRA DEPARTMENT OF ENFORCEMENT**

Date: November 2, 2012



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Dean M. Jeske, Esq.  
Deputy Regional Chief Counsel  
Dale A. Glanzman, Esq.  
Senior Regional Counsel  
FINRA – Department of Enforcement  
55 West Monroe, Suite 2700  
Chicago, IL 60603-5052  
(312) 899-4353; (312)899-4600 (fax)  
[dean.jeske@finra.org](mailto:dean.jeske@finra.org)  
(312) 899-4312; (312) 899-4600 (fax)  
[dale.glanzman@finra.org](mailto:dale.glanzman@finra.org)

Michael A. Gross, Esq.  
Senior Litigation Counsel  
Authorized House Counsel  
Member of Ohio Bar Only  
FINRA – Department of Enforcement  
Crystal Corporate Center  
2500 N. Military Trail, Suite 302  
Boca Raton, FL 33431-6324  
(561) 443-8125; (561) 443-7998 (fax)  
[michael.gross@finra.org](mailto:michael.gross@finra.org)