

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

NOTICE OF INITIATION OF PROCEEDING
SEEKING A TEMPORARY CEASE AND DESIST ORDER
UNDER FINRA RULE 9810

The Department of Enforcement, pursuant to FINRA Code of Procedure Rule 9810, hereby notifies Respondents, W R Rice Financial Services, Inc. ("WR Rice") and Joel I. Wilson ("Wilson"), that it is initiating a proceeding seeking the issuance of a temporary cease and desist order by the Hearing Panel. Contemporaneous with the filing of this Notice, the Department has issued a Complaint under Rule 9211 against WR Rice and Wilson relating to the subject matter of this temporary cease and desist proceeding and alleging violations of FINRA rules and the federal securities laws specified in this Notice.

The Department is seeking a temporary cease and desist order based upon Respondents' repeated and continuous violations of the following:

1. Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder;

2. FINRA Rule 2020, which provides that “[n]o 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”;

Respondents have violated and, based on information and belief, are likely to continue to violate the above-referenced provisions by making material misrepresentations and omissions of fact through the conduct of Wilson and other registered representatives of WR Rice in connection with the offer and sale, via private placement offerings of unregistered securities, of limited partnership interests in 14 of the 17 limited partnerships identified as The Diversified Group Land Contract Limited Partnership #1 through #17 (collectively, “LPs 1-17”, and individually, “LP 1”, etc.), or other affiliated limited partnerships.

As more fully detailed in the Complaint filed contemporaneously herewith, 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, Diversified Group Partnership Management, LLC (“DGPM”)--an entity owned and controlled by Wilson and his partner MK--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, 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.

As more fully alleged in the Complaint, 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 promissory notes, because DGPM and ARF did not have enough money to repay the notes.

The above referenced violations have resulted in customer harm and the likely dissipation or conversion of customer assets. As set forth below and in the supporting Declaration of Willson Rasavongxay, if left unchecked, the Respondents likely will continue the referenced violations which may result in significant customer harm and further dissipation or conversion of customer assets prior to the completion of the underlying disciplinary proceeding against Respondents.

First, there is significant risk that Wilson or other WR Rice registered representatives will continue to engage in the fraudulent offer and sale of limited partnership interests. For example, on August 28, 2012, Wilson filed with the SEC three separate “Form D-Notice of Exempt Offering of Securities” in connection with the planned offerings of three additional series of limited partnership interests by a related issuer identified as Land Contract Limited Partnership Series IIA-C. These three new limited partnership offerings purport to seek additional investor funds in excess of \$550,000. Indeed, as recently as October 5, 2012, Wilson effected a sale to WR Rice customer DC of \$75,000 worth of limited partnership interest in the Land Contract Limited Partnership Series II-A offering. In addition, as Wilson acknowledged in his OTR testimony, a substantial percentage of the existing investors in LPs 4-17, rather than receive the monthly cash payments from their investments in the LPs, chose to make new investments in

other LPs. Those new investments are based upon the same fraudulent misrepresentations and omissions that led to their original purchases.

Second, there is significant risk that Respondents may further dissipate or convert customer assets. In connection with FINRA's investigation of Respondents, Wilson produced monthly account statements for certain bank accounts maintained in the names of DGPM and ARF. According to Wilson's OTR testimony, the proceeds of the investments in all of the LPs at issue were funneled into those accounts and commingled with funds of other entities controlled by Wilson and MK. A review of those account statements revealed numerous highly questionable payments and withdrawals by Wilson. For example, with respect to an account maintained by DGPM at Fifth Third Bank, FINRA staff has identified transactions totaling approximately \$390,000 that appear highly questionable. Among the suspicious transactions are a series of payments and withdrawals that occurred immediately following an email dated May 1, 2012, wherein Wilson invited several friends to attend his birthday celebration in Las Vegas, Nevada on May 10-13, 2012. Thereafter, the Fifth Third bank account statements show the following highly questionable transactions:

- a charge of \$442.20 for Delta Airlines on May 7, 2012;
- an additional charge of \$403.10 for Delta Airlines on May 11, 2012;
- a charge for \$3,121.50 for the MGM Grand Hotel and Casino in Las Vegas, Nevada on May 14, 2012;
- a cash withdrawal of \$504.99 from an automated teller machine in Las Vegas, Nevada on May 14, 2012.

Wilson has impeded FINRA staff's attempts to further investigate the questionable transactions in the referenced bank accounts by: (1) refusing to provide more detailed bank records related to

these bank accounts (e.g., cancelled checks, detailed records of payments or transfers, etc.), contending that FINRA lacks jurisdiction despite Wilson's obvious possession or control over such documents; (2) refusing to answer FINRA staff's additional questions and walking out on the second day of his OTR testimony on October 16, 2012, after being confronted with falsified documents that he had provided to FINRA pursuant to FINRA Rule 8210.

Accordingly, based on all of the above and the supporting Declaration of Willson B. Rasavongxay filed contemporaneously herewith, the Department of Enforcement requests that the Hearing Panel issue an Order immediately requiring Respondents to:

A. **CEASE AND DESIST** from violating Section 10(b) of the Securities Exchange Act of 1934, SEC Rule 10b-5 thereunder, and FINRA Rules 2020 and 2010;

B. **CEASE AND DESIST** from selling or offering to sell, and from distributing or offering to distribute, any securities issued by:

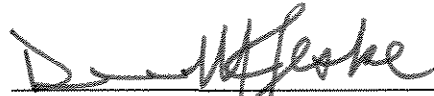
(1) American Realty Funds Corporation; (2) The Diversified Group Partnership Management, LLC; (3) any entity affiliated with either of the entities identified in section B (1) or (2), above; and (4) any entity owned or controlled by Wilson, including, but not limited to ceasing and desisting from any sales or offers to sell any interests in any of the limited partnerships identified as The Diversified Group Land Contract Limited Partnerships 1-17 or The Diversified Group Land Contract Limited Partnership Series II; and

C. **CEASE AND DESIST** from dissipating or converting, or causing to be dissipated or converted, the funds or assets of any investors in any of the limited partnerships identified as The Diversified Land Contract Limited Partnerships 1-17 or The Diversified Group Land Contract Limited Partnership Series II, including, but not

limited to: (1) using or causing the use of any investor funds or assets for the personal expenses of any person; (2) using or causing the use of any investor funds or assets for any purpose other than the ordinary, customary and necessary business purposes of the entities where such funds or assets are maintained; (3) using or causing the use of any investor funds or assets in a manner contrary to the best interest of the limited partnerships identified above.

FINRA DEPARTMENT OF ENFORCEMENT

Date: November 2, 2012



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
(312) 899-4312; (312) 899-4600 (fax)
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