



Land Trust Schemes

Ohio Real Estate Commission action against Jon Bradham

Re: Case #2005-000339

The Ohio Real Estate Commission recently assessed Jon Bradham a civil penalty of \$39,000 for 39 violations of Revised Code Section 4735.02 (unlicensed activity). The Commission determined to waive the penalty so long as Mr. Bradham provided a notarized written statement to the Division of Real Estate that may be published as a warning to others to avoid participating in land trust schemes and engaging in unlicensed activity. Mr. Bradham's statement follows in its entirety as submitted to the Division with names of most individuals and entities redacted:

Ohio Real Estate Commission
77 S. High Street, 20th Floor
Columbus, Ohio 43215

IN RE: JON BRADHAM, RESPONDENT

CASE NO. 2005-339

STATEMENT OF JON BRADHAM

I wish to submit this information in regard to **OREC case #2005-000339** brought against me, **Jon Bradham**. This information explaining the circumstances that led to the arrangement between Riverhaven Equities, Inc (a defunct Ohio S corporation) and Mr. Louis [REDACTED] concerning his property at [REDACTED] Canal Winchester, Ohio.

Background:

In spring of 2002 my wife, 12 year old son and I read Robert Kiyosaki's Rich Dad, Poor Dad. At that time, I was working as an engineering manager for the Longaberger Basket company in Frazeytsburg, Ohio and living in Newark, Ohio. I am a degreed engineer with 15 years professional experience. Back in 2002, I enjoyed engineering but wanted to start and run my own business.

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We had little capital to invest. The Kiyosaki book pointed us in the direction of real estate investing as an opportunity with big growth potential which required little up front investment. We began researching the opportunities in real estate investing. We joined a Kiyosaki investment club to learn more about real estate investing. This was an informal group of local people who, like us, wanted to become financially independent the "Kiyosaki way". We met with them once a month at the food court in the Mall at Tuttle Crossing in Columbus, Ohio during April and May of 2002 to discuss different investment opportunities and to play Kiyosaki's Cash Flow game.

Many of the books, websites, and articles we read and real estate investors and professionals we talked to recommended that we join a local Real Estate Investment group. We joined the central Ohio chapter of the [REDACTED] in April 2002. This association met on the first Tuesday of each month at 6:30pm at the [REDACTED]

Throughout the summer of 2002 we attended monthly [REDACTED] meetings and listened to many different lectures on real estate investing using different systems. At the June 2002 [REDACTED] meeting we attended a conference where we were introduced to Bill [REDACTED]. We were intrigued by his system as the start-up costs were low. We were also hesitant at first as it was a very complicated system. However, since [REDACTED] a reputable organization we trusted, introduced us to Mr. [REDACTED] we decided to learn more about his system. We signed up and attended his all day seminar shortly thereafter at the [REDACTED] in Columbus, Ohio.

At the end of the seminar, we purchased the documentation package, or Success Package, for Mr. [REDACTED] PACTrust system. The initial investment was around \$500 payable to Mr. [REDACTED] company [REDACTED] Services, [REDACTED]. This investment provided us with the entire documentation package, rights to use the documentation, permission to work with and be assisted by [REDACTED] and permission to use the Equity Holding Corporation (PO Box 87, Midpines, CA 95345 ph: (209) 742-7153 website: <http://equityholding.org/>) as trustee as part of the system.

Mr. [REDACTED] assured us that his system could be used by anyone, in any state without any special licensing. Furthermore, he assured us that he had checked the laws specific to Ohio prior to scheduling the seminar and that there was no problem using his system in Ohio. Mr. [REDACTED] specifically mentioned Ohio revised code 4735 and asserted strongly the following:

1. Using his trust system, we as real estate investors would not need a real estate license, as we would be purchasing and selling ownership of trust. Beneficial interest in a trust is considered personal property not real property; therefore a real estate license is not required.
2. As an owner of beneficial interest in a trust, the real estate investor (the investor beneficiary) would not need a property management license to manage the beneficiary residing (the resident beneficiary) in the property for the trust.

Prior to establishing the first trust arrangement, we asked a lawyer [REDACTED] to review the PACTrust documentation. He reviewed the documentation from [REDACTED] in July 2002 and stated that it seemed complicated but he could not find anything specifically wrong with it. He indicated that he had seen trust arrangements using the Illinois trust like this work before in Ohio and that he would be open to discussing becoming the trustee for us.

We also discussed this system with real estate professionals. Many [REDACTED] members are realtors. We discussed the trust system with [REDACTED], a member of [REDACTED] at that time and an agent with [REDACTED] in August 2002. He was enthusiastic about the system and wanted to help us locate potential settlers and resident beneficiaries. He agreed that it was a service that could fit a niche and help renters with damaged credit to progress toward owning a property. We located a title company through a referral from [REDACTED] members [REDACTED] to discuss the trust system with and to provide closing and deed preparation and

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filing services transferring the property's title into the trust. We discussed the system with the owners of [REDACTED] attorneys [REDACTED] and [REDACTED], Mr. [REDACTED] and Mr. [REDACTED] did not analyze the system in depth, but thought that the basic premise was safe and sound. They had seen trust arrangements like this work before in Ohio and were willing to partner with us.

After purchasing the system from Bill [REDACTED] and reading "Loop-Holes of the Rich" another of Robert Kiyosaki's Rich Dad books, we formed Riverhaven Equities Incorporated, an Ohio S corporation. We planned to use this S corporation to establish real estate investments using [REDACTED] PACTrust system. We formed this S corporation based on the following advice:

1. Mr. [REDACTED] recommended a corporation or LLC to provide protection in case of disputes.
2. An accountant familiar with real estate investing (referred to us by [REDACTED] members), [REDACTED] CPA ([REDACTED]), recommended an S corporation for ease of tax documentation and tax advantages.

Bill [REDACTED] taught us his system during the all day seminar and through phone calls and emails after the seminar. Basically we were to locate properties with owners who were willing to delay sale of the property. We then were to place title to the property into a trust using [REDACTED] services. [REDACTED] company [REDACTED] would name Equity Holding Corporation the trustee (see Appendix 1). The property would remain in the trust for an initial term of 3 years, extendable for up to 20 years. At the establishment of the trust, part of the interest in the trust would be sold to resident beneficiaries who would occupy the property, part of the interest would be kept by the original owner (the settler), and part of the interest of the trust would be held by Riverhaven Equities Inc. (the investor beneficiary). At the end of the trust term the occupant would obtain a loan and purchase all of the original owner's interest and Riverhaven's interest in the trust at the initially agreed upon price. At this point the resident beneficiary would own 100% interest in the trust holding the property and be able to put the title into their name. According to Mr. [REDACTED] – he stressed this point many times in his seminar, in his documentation, on his website, and in his communications with us – the establishment of the trust and sale of beneficial interest in the trust was a transaction of personal property, not real property, and thus was not subject to the laws and rules of real estate sales.

In late summer of 2002 I began looking for "for sale by owner" properties with owners willing to partner with us in trust arrangements. The benefit to the owner in this arrangement would be that Riverhaven Equities, Inc would locate a resident beneficiary to occupy the property and maintain it for up to three years based on an occupancy agreement. Also, since this was not a real estate transaction, there would be no realtor commission on the sale. At the end of the three year term the resident beneficiary would be responsible to obtain financing to purchase the remaining interest in the trust holding the property from both the investment beneficiary and the settler beneficiary at the price agreed upon at the establishment of the trust.

I began locating properties using for sale by owner websites and made initial contact with Louis [REDACTED] regarding his condominium at [REDACTED] in Canal Winchester Ohio in October of 2002. We met and discussed the trust system. I indicated that I was new to real estate investment but I had found experienced partners in [REDACTED] in California and a tried and true system that was known to work in Ohio. I made these statements based on what I had been told by real estate professionals, including Mr. [REDACTED], Mr. [REDACTED], Mr. [REDACTED] and Mr. [REDACTED].

On November 11, 2002, Mr. [REDACTED] signed an option to purchase interest in a trust holding his property. The option would expire on January 1, 2003. During the option term, Riverhaven Equities would attempt to locate a resident beneficiary to purchase interest in a trust holding Mr. [REDACTED]'s property, and to reside in the property during the trust term, physically maintain the property, and pay a monthly fee to cover all costs related to the property. In accordance with our instructions from Bill [REDACTED] for the system, the trust holding the property would not be created until a resident beneficiary had been located and an acceptable offer had been made to Mr. [REDACTED].

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By the end of the option term, we had not located a resident beneficiary for the property. As we had located several potential resident beneficiaries, Mr. [REDACTED] and I agreed verbally to continue the option indefinitely. In January 2003, I made contact with the future resident beneficiary, Lorraine [REDACTED]. Ms. [REDACTED] submitted an offer to purchase interest in the trust (yet to be established) holding the property on February 23, 2003. We set a closing date of April 1, 2003. Closing would take place at [REDACTED]. At closing, the property would be placed into the trust and beneficial interest in the trust would be transferred to Riverhaven Equities and to the resident beneficiary Lorraine [REDACTED]. Mr. [REDACTED] would retain 10% beneficial interest in the trust holding the property; Riverhaven Equities would own 40%; Lorraine [REDACTED] would own 50%. At all times, the parties to the transactions and agreements were [REDACTED], Riverhaven, Equity Holdings Corporation, and [REDACTED]. In the offer document, it clearly states that this was a personal property transaction and encouraged all parties to obtain legal counsel if they had questions or concerns.

At closing, the resident beneficiary paid the closing costs (part as cash, part in the form of a promissory note to Riverhaven Equities). The closing costs were made up of an initial investment and non-refundable closing and trust establishment fees. As per Mr. [REDACTED] system, all required documents were filed with the state of Ohio and [REDACTED], and all fees for creation of the trust were paid to [REDACTED]. The trust holding the property was created using the [REDACTED] website and via email and phone contact with [REDACTED]. There was some unexplained confusion and delay in receiving the final trust agreement from [REDACTED] – it was not delivered until April 17, 2003 (see Appendix 2). The trust agreement was forwarded to Louis [REDACTED] for his signature with instruction and postage to mail to [REDACTED].

Between April 2003 and November 2004, Lorraine [REDACTED] and her daughter Electa [REDACTED] resided in the property as the resident beneficiary. She was late on her monthly payment several times. In November 2004, Ms. [REDACTED] and her daughter each sent a check to cover the monthly payment – the check from her daughter bounced, making it impossible for Riverhaven to pay the mortgage payment on the property. On November 17, 2004, Riverhaven notified Mr. [REDACTED] and Ms. [REDACTED] that it was exercising its right not to purchase the property, and would relinquish its ownership of interest and responsibilities (per the signed trust agreements) to Mr. [REDACTED]. We offered to assist Mr. [REDACTED] with eviction per the trust agreements of Ms. [REDACTED] if necessary.

In March of 2005 my family and I moved to Seattle, Washington for an engineering job and to be closer to family in Washington. In June 2005, Mr. [REDACTED] contacted us through an attorney that had worked with Riverhaven previously. He stated that we owed him around \$20,000 due to the failed arrangement. We stated that we would be willing to pay him a more fair amount as settlement, closer to the amount originally paid by Ms. [REDACTED] at closing, approximately \$3,000. We also stated repeatedly that we could not pay a large lump sum of cash but would need time to pay the full amount. Mr. [REDACTED]'s attorney threatened lawsuit. At that time, my wife and I were talking to an attorney in Issaquah, Washington about bankruptcy due to the heavy debt we were carrying from Riverhaven Equities, the failed Ohio S Corporation. We asked this attorney ([REDACTED]) to assist us with dealing with Mr. [REDACTED]'s attorney – we hoped legal representation on our side would bring about a quick, fair resolution. Unbeknownst to us, Mr. [REDACTED] had also filed a complaint against us with the Ohio Real Estate Commission for engaging in unlicensed activity. This was the first time I realized that Mr. [REDACTED] was probably incorrect in saying that the system did not require a license. I contacted attorney [REDACTED] in April 2006 after being notified about the OREC case against me.

After protracted discussion with Mr. [REDACTED], his attorney Mr. [REDACTED] our attorneys in both Washington and Ohio, we have reached settlement with Mr. [REDACTED] and, through personal sacrifice and increased damage to our credit, have made him whole. The final payment toward a \$6,000 settlement was made to Mr. [REDACTED] at the end of August 2006. I have also incurred significant legal fees in defending myself before the Ohio Real Estate Commission.

In summary, we were put in touch with Mr. [REDACTED], [REDACTED] and Equity Holding by the [REDACTED]. [REDACTED] is a trusted, reputable organization that we were members of. We chose to move forward using Mr. [REDACTED]'s system because we trusted [REDACTED] and the input of Ohio real estate professionals, including Mr. [REDACTED], Mr. [REDACTED] and Mr. [REDACTED]. We also chose to use Mr. [REDACTED]'s system because he is a very convincing salesman. We sincerely regret that decision.

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During the course of our dealings with Mr. [REDACTED] trust system, I relied on the advice of real estate professionals and attempted to follow Mr. [REDACTED]'s instruction. I relied on counsel from Mr. [REDACTED] and the attorneys at [REDACTED] in establishing the trust. At all times I acted in good faith and in reliance on Mr. [REDACTED] local legal and professional counsel and a local title company.

We came to realize that the trust system would not work for us. We were forced to close Riverhaven and consider filing bankruptcy due to the debt we had incurred while working at Riverhaven full time. Furthermore, Bill [REDACTED] offered us no assistance when problems arose. When we contacted Equity Holding Corporation (the trustee established [REDACTED]RS), they denied any relationship with the property and claimed they did not receive payment or documentation to act as the trustee, even though we have documentation from [REDACTED] showing payment and trust establishment (see Appendix 3). I have gone back to engineering and continue to pay off the debt incurred by this endeavor. Our involvement with Mr. [REDACTED] and his trust system is regrettable. The experience with Mr. [REDACTED] and his system has been a very negative one for us and we have no current or planned future involvement in real estate investing. We caution other potential investors to thoroughly investigate a program such as this before becoming involved.

Respectfully,

Jon Bradham, member Riverhaven Equities, Inc. (a defunct Ohio S Corporation)

Where in Ohio is My Notice?

**** Policy Change for Real Estate Licensee Enforcement and Legal Notices****

The Division sends hundreds of notices to Ohio Real Estate licensees each day. In an effort to maintain consistency and a course of fluid communication between the Division and active Real Estate licensees, **all written correspondence sent from the Division's Enforcement and Legal departments will now be mailed to the affiliated primary brokerage office.** Sending correspondence to the primary brokerage office will ensure that all licensees are informed of vital information concerning their real estate licenses, as well as reducing the number of letters returned to the Division as "unclaimed" or "undeliverable." The Division expects that all active licensees will maintain a level of communication with their brokerage to retrieve incoming correspondence. Brokerages are expected to keep their addresses current by sending in a Division Change Application along with the brokerage license and addendum upon moving the primary brokerage office.

Please note: Renewal and suspension notices for Real Estate salespeople will continue to go to the home address. Renewal and suspension notices for Real Estate brokers will continue to go to the primary brokerage office.

Brokers: Upon receiving a request from the Superintendent for a license to be returned, you are required to return the license within three days after receiving the request. Failure to return a requested license is a violation of R.C. 4735.18 (A)(6), misconduct.