

BEFORE THE  
STATE OF WISCONSIN  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
DIVISION OF SECURITIES

---

In the Matter of

PETITION FOR ORDER

JOHN W. TORGERSON,  
PREFERRED ACCEPTANCE COMPANY,  
AMERICAN TITLE & ABSTRACT COMPANY OF  
EAU CLAIRE, INC.,  
AMERICAN TITLE SERVICES-SCV, LLC,  
DUTCHMAN COURT, LLC,  
GLENN PLACE PARTNERS, LLC,  
ELIZABETH HALLIE, LLC,  
TALMADGE APARTMENTS, and  
TORGERSON MANAGEMENT COMPANY,

File No. S-209946 (EX)

Respondents.

---

The staff of the State of Wisconsin, Department of Financial Institutions, Division of Securities, Bureau of Enforcement (“the Division”) has conducted an investigation in this matter pursuant to § 551.56, Wis. Stats.,<sup>1</sup> and as a result thereof alleges as follows:

1. John W. Torgerson (hereinafter “Torgerson”) is an individual born in July 1950, who was licensed from 1980 to 2009 as a certified public accountant with the Wisconsin Department of Regulation & Licensing, with a last known business address at 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702 and last known home address at W2516 Silver Springs Drive, Eau Claire, Wisconsin 54701.
2. According to the Internet website of PAC, Torgerson was previously employed as the State of Wisconsin Deputy Commissioner of Banking and Deputy Commissioner of Insurance.
3. Preferred Acceptance Company (hereinafter “PAC”) is a Wisconsin corporation with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702, and was the surviving entity of a merger with Preferred Mortgage Company.
4. American Title & Abstract Company of Eau Claire, Inc. (hereinafter “American Title”) is a Wisconsin corporation with a last known principal office address of 2142 Brackett Avenue, PO Box 1084, Eau Claire, Wisconsin 54702.
5. American Title Services-SCV, LLC (hereinafter “American Title Services-SCV”) is a Wisconsin limited liability company with a last known principal office address of 1930 Keith Street, Eau Claire, Wisconsin 54701.

---

<sup>1</sup> Unless otherwise noted, the statutory references are to the Wisconsin Statutes (2005-06), which were in effect at the time of the violations alleged herein and apply pursuant to § 551.703, Wis. Stats. (2007-08).

6. Dutchman Court, LLC, (hereinafter “Dutchman Court”) is a Wisconsin limited liability company with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702.

7. Elizabeth Hallie, LLC, (hereinafter “Elizabeth Hallie”) is a Wisconsin limited liability company with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702.

8. Glenn Place Partners, LLC, (hereinafter “Glenn Place”) is a Wisconsin limited liability company with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702.

9. Talmadge Apartments is a sole proprietorship of John W. Torgerson with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702.

10. Torgerson Management is a sole proprietorship of John W. Torgerson with a last known principal office address of 2142 Brackett Avenue, PO Box 1605, Eau Claire, Wisconsin 54702.

11. At all times material hereto, Torgerson has been the registered agent, owner, member, officer and a controlling person of American Title, American Title Services-SCV, Dutchman Court, Elizabeth Hallie, Glenn Place, PAC, Talmadge Apartments, and Torgerson Management (collectively, hereinafter the “Torgerson entities”).

12. According to the Internet website, the history of PAC is as follows:

“Preferred Mortgage Company (PMC) was started in 1979 as a conventional lending brokerage. By 1994, Mr. John Torgerson saw the need for a local mortgage banking company to more fully serve the sub-prime or ‘credit challenged’ market place. The name of his mortgage banking business is Preferred Acceptance Company (PAC).

In December 2005, PMC & PAC merged into Preferred Acceptance Company. Preferred Mortgage is now the mortgage brokerage division of the newly formed company.

PAC offers a full range of mortgage products and services and a growing portfolio of mortgages for those who have difficulty securing services through conventional sources.

PAC funds its lending activities through bank credit lines and the sale of promissory notes to the public, as discussed in the ‘Investment Opportunities’ page of our Web site. These notes are available for purchase by Wisconsin residents only.”

13. According to information and documents Torgerson provided to Division staff, and from the March 2010 bankruptcy filing of Torgerson, between 2003 and 2010 Torgerson, personally and on behalf of the Torgerson entities, offered and sold promissory notes of the Torgerson entities to at least 70 persons and entities in Wisconsin promising repayment of principal with interest payments at a specific date in the future.

14. To provide a historical chronology regarding the sales of PAC Promissory Notes, sales of such Notes were authorized to commence by Division letter dated September 5, 2003 following a filing by Torgerson on behalf of PAC of a claim for use of the securities registration exemption in rule DFI-Sec 2.028, Wis. Adm. Code, which exemption at that time permitted

offers and sales of equity or debt securities of a Wisconsin-based issuer to up to 100 persons in Wisconsin in an aggregate amount not exceeding \$5 million. The duration of the offering period under the exemption may not exceed one year, although an issuer may extend the offering for additional 1-year periods upon making supplemental filings with updated disclosure materials.

15. On September 20, 2004, Torgerson filed with the Division an application for a 1-year extension of the September 2003 exemption confirmation, accompanied by certain disclosure materials. Upon review of the extension request, the Division Staff informed Torgerson that several disclosure items were required to be added or revised. Revised disclosure materials were submitted by Torgerson on November 15 and 17, and following review of the revised materials, the staff issued a letter dated November 17, 2004, granting a 1-year extension.

16. On November 11, 2005, Torgerson filed with the Division another application for a 1-year extension of the effectiveness of the registration exemption, accompanied by certain disclosure materials. Following review of the extension request, the Division Staff issued a letter dated November 18, 2005, granting a 1-year extension.

17. On November 22, 2006, Torgerson filed with the Division another application for a 1-year extension of the effectiveness of the registration exemption, accompanied by certain disclosure materials.

18. Following review of the November 22, 2006 extension request, the Legal Counsel for the Division, Randall E. Schumann (hereinafter "Schumann") wrote a letter to Torgerson dated November 29, 2006, informing him that the registration exemption of the notes of PAC was "on hold" due to the following:

1. "... Because the only financial statements contained in the revised offering materials are year-and numbers from December 31, 2005 and the predecessor year ended 12/31/2004, those financial statements are 'stale' from a disclosure standpoint in that the 12/31/2005 data is now nearly 12 months old. ...
2. The Staff has several related questions regarding the status and quality of the Company's receivables portfolio, the adequacy of its reserve for loan losses, and the current level of its foreclosed real estate. ..."

A copy of this letter is attached hereto and is incorporated as Exhibit 1.

19. Torgerson responded to Exhibit 1, with a letter dated December 20, 2006, to the items, found in Paragraph 18 above, in part, as follows:

- a. "... We are primarily a sub-prime, portfolio lender. As such we expect to have a greater proportion of 'work out' loans than a prime lender. We tend to practice forbearance for much longer periods than prime lenders. Many of our non accrual loans are active on a regular or sporadic basis and eventually pay off in full. ..."
- b. "... Our loan loss reserves at 12/31/2005 represent 4.00% which our bankers and auditors consider adequate. ... We do hope to reach our 5.00% goal within two years. ..."
- c. "... For the same reason as stated above, we experience a much higher level of foreclosures than a prime lender. We also treat foreclosures much differently than prime lenders. We hold REO and invest additional funds to correct damage and neglect or to make improvements to prepare properties for sale...."
- d. "Our audit for year-end 12/31 2006 is scheduled for February 19, 2007;" "We will

shortly submit information on non-accrual loans as of November 30, 2006;” “We will shortly submit information on the disposition of 12/31/2005 REO, and REO as of November 30, 2006;” We will shortly submit information on loans to officers and affiliates as of November 30, 2006;” “We will shortly submit information on the number of noteholders as of November 30, 2006.”

A copy of this letter is attached hereto and incorporated as Exhibit 2.

20. With respect to the follow-up information, including updated financials, that Torgerson on behalf of PAC said in his December 20, 2006 letter (Exhibit 2) would be “submitted shortly,” Torgerson did not file PAC’s audited financial statements for its calendar year ended December 31, 2006 until September 14, 2007. The response information on the additional issues that the Division staff had requested in Exhibit 1 was not included in PAC’s September 14, 2007 filing.

21. Schumann responded to Torgerson’s letter and information filed September 14, 2007, with a letter dated October 12, 2007, that included the following language:

- a. “... On the basis of the Staff’s initial review of the recently received 2006 audited financials, it appears that the points raised by the Staff in its November 2006 letter regarding certain financial statement items (the status and quality of the Company’s receivables portfolio, the adequacy of its reserves for loan losses, and the current levels of its foreclosed real estate) appear still to be of a nature requiring particularized disclosure ...” and
- b. “. . . the Staff is awaiting receipt of response information regarding the various specific issues previously raised.”

A copy of this letter is attached hereto and incorporated as Exhibit 3.

22. According to information and documents Torgerson provided to Division staff after receiving Exhibit 3, Torgerson stopped issuing notes to new investors of PAC, but continued to “rollover” notes of PAC with previous investors.

23. According to information and documents Torgerson provided to Division staff after receiving Exhibit 3, Torgerson issued notes to new investors of various other entities of Torgerson, but which were not registered or exempt from registration with the Division.

24. The notes Torgerson offered and sold to the Wisconsin investors are securities as defined by § 551.02(13)(a), Wis. Stats., and met a registration exemption with the Division from 2003 until November 29, 2006, but not thereafter.

25. Torgerson and the Torgerson entities violated § 551.21(1), Wis. Stats., by offering and selling unregistered securities to persons in Wisconsin.

26. According to information and documents provided by legal counsel for two Wisconsin investors, Torgerson failed to repay the notes of the two Wisconsin investors when due in March 2009 and September 2009, and thereafter Torgerson failed to repay other notes as they became due.

27. Pursuant to a subpoena, the accounting firm that prepared the financial statements and tax returns of the Torgerson entities provided to the Division documents, including records containing **Notes to Financial Statements** of PAC for years ended 2006 and 2007, in which the accountants stated, in part, as follows:

**“Note 9 Going Concern** The Company has suffered recurring losses from operations and has a net capital deficiency that raises doubt about ability to continued (sic) as a going concern. The Company’s current year net loss was primarily attributed to lower interest income and an increase in collection costs resulting from rising loan delinquencies and foreclosures in 2006 and 2007. This combined with the fact that interest expense accrued on funds borrowed to generate these loans and maintain these properties have significantly impacted current year’s earnings. ...”

28. According to the subpoenaed accounting documents provided to the Division, American Title had net losses for the years ended of 2004 through 2007.

29. According to documents produced by the accounting firm to the Division pursuant to a subpoena, American Title Services-SCV had net losses for the years ended of 2005 through 2008.

30. According to documents produced by the accounting firm to the Division pursuant to a subpoena, Elizabeth Hallie, LLC had no income or losses for 2006 and 2007, and losses in 2008 and 2009.

31. According to documents produced by the accounting firm pursuant to subpoena by the Division, Dutchman Court, LLC had net losses for the years ended 2005 through 2008.

32. According to documents produced by the accounting firm pursuant to subpoena by the Division, there are no financial statements available for Talmadge Apartments.

33. Upon information and belief, during the offer and sale of the securities to the Wisconsin investors after the November 29, 2006 letter from Legal Counsel to the Division Schumann to Torgerson, (Exhibit 1), Torgerson did not disclose to the investors before they invested, the material information which the Division had communicated to Torgerson -- namely, that the registration exemption for the sale of the Notes of PAC was “on hold” as of November 29, 2006, and therefore the promissory notes of PAC were not registered or exempt from registration in Wisconsin.

34. Upon information and belief, during the offer and sale of the securities to the Wisconsin investors after October 12, 2007, the date of Exhibit 3, the letter of Legal Counsel Schumann’s letter to Torgerson, Torgerson did not disclose to the investors before they invested, the material information which the Division had communicated to Torgerson -- namely, that “On the basis of the Staff’s initial review of the recently received 2006 audited financials, it appears that the points raised by the Staff in its (above-mentioned) November 2006 letter regarding certain financial statement items (the status and quality of the Company’s receivables portfolio, the adequacy of its reserves for loan losses, and the current levels of its foreclosed real estate) appear still to be of a nature requiring particularized disclosure ...”

35. Upon information and belief, during the offer and sale of the securities to the Wisconsin investors after June 2008, when Torgerson received from the accounting firm that prepared the financial statements and tax returns of the Torgerson entities, in the **Notes to Financial Statements** of PAC for years ended 2006 and 2007, the information that **“Note 9 Going Concern,** Torgerson did not disclose to the investors before investing that “The Company has suffered recurring losses from operation and has a net capital deficiency that raises doubt about ability to continued (sic) as a going concern. The Company’s current year net loss was primarily attributed to lower interest income and an increase in collection costs resulting from rising loan delinquencies and foreclosures in 2006 and 2007. This combined with the fact that interest expense accrued on funds borrowed to generate these loans and maintain these properties have significantly impacted current year’s earnings. ...”

36. Upon information and belief, during the offer and sale of the securities to the Wisconsin investors after July 16, 2009, the filing date of the lawsuit of an investor of Torgerson in Eau Claire County against Torgerson for failure to repay the promissory note of PAC, Torgerson did not disclose to the investors before they invested, the material information that Torgerson had failed to repay the note of an investor that came due in March 2009, or that a court action for the failure to repay the note had been filed.

37. Based upon the conduct referred to in paragraphs 33 through 36, Torgerson and the Torgerson entities violated § 551.41(2), Wis. Stats., by omitting 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 offer and sale of securities to a person in Wisconsin.

38. Division staff requested specific information and documents from Torgerson about his securities-related transactions, but to date have received only incomplete responses, despite the due date for the responses having passed.

39. Torgerson and Torgerson's wife, Rita Torgerson, filed a Chapter 7 bankruptcy petition in the United States Bankruptcy Court, Western District of Wisconsin (Eau Claire branch) in March 2010.

Therefore, the staff of the Bureau of Enforcement petitions the Administrator of the Division of Securities for the issuance of the attached Order pursuant to Ch. 551, Wis. Stats.

 4-5-11  
\_\_\_\_\_  
Mark E. Dorman Date  
Examiner

 4/5/11  
\_\_\_\_\_  
Leslie Van Buskirk Date  
Attorney Supervisor