

FILED
JUN 20 2008

DEPARTMENT OF REAL ESTATE

By 

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

BEFORE THE DEPARTMENT OF REAL ESTATE

STATE OF CALIFORNIA

* * *

In the Matter of the Accusation of)	No. H-34344 LA
)	L-2007120145
KMG MORTGAGE SERVICES, INC.,)	
and SHANNON KAY STRANGE,)	
individually and as designated)	
officer of KMG Mortgage Services,)	
Inc., and JOHN EDGAR WEST,)	
)	
Respondents.)	

ORDER EXTENDING TIME

On April 30, 2008, a Decision was rendered herein suspending Respondents' licenses for ninety (90) days on certain terms and conditions, including the condition that each Respondent pay a monetary penalty in the amount of \$10,000 each (\$30,000 for all Respondents) in order to stay said ninety (90)-day suspension.

The Decision provided that Respondents must satisfy the above condition prior to the effective date of the Decision.

///

///

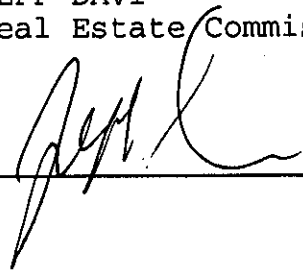
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Good cause having been shown, the time during which Respondents must complete the condition described above is hereby extended to July 31, 2008.

This Order shall be effective immediately.

DATED: 6-17, 2008.

JEFF DAVI
Real Estate Commissioner



1 Department of Real Estate
2 320 W. 4th St., Room 350
3 Los Angeles, California 90013

4 Telephone: (213) 576-6982

FILED
MAY 28 2008
DEPARTMENT OF REAL ESTATE

By 

8 BEFORE THE DEPARTMENT OF REAL ESTATE

9 STATE OF CALIFORNIA

10 * * *

11 In the Matter of the Accusation of) No. H-34344 LA
12) L-2007120145
13 KMG MORTGAGE SERVICES, INC.,)
14 and SHANNON KAY STRANGE,) STIPULATION AND AGREEMENT
15 individually and as)
16 designated officer of)
17 KMG Mortgage Services, Inc.,)
18 and JOHN EDGAR WEST,)
19 Respondents.)

18 It is hereby stipulated by and between KMG MORTGAGE
19 SERVICES, INC., SHANNON KAY STRANGE, and JOHN EDGAR WEST
20 (sometimes referred to as Respondents) and their attorney, Kevin
21 Spainhour, and the Complainant, acting by and through James R.
22 Peel, Counsel for the Department of Real Estate, as follows for
23 the purpose of settling and disposing of the Accusation filed on
24 September 27, 2007, in this matter.

25 1. All issues which were to be contested and all
26 evidence which was to be presented by Complainant and
27 Respondents at a formal hearing on the Accusation, which hearing

1 was to be held in accordance with the provisions of the
2 Administrative Procedure Act ("APA"), shall instead and in place
3 thereof be submitted solely on the basis of the provisions of
4 this Stipulation and Agreement ("Stipulation").

5 2. Respondents have received, read and understand the
6 Statement to Respondent, the Discovery Provisions of the
7 Administrative Procedure Act ("APA") and the Accusation filed by
8 the Department of Real Estate in this proceeding.

9 3. On October 11, 2007, Respondents filed a Notice of
10 Defense pursuant to Section 11506 of the Government Code for the
11 purpose of requesting a hearing on the allegations in the
12 Accusation. Respondents hereby freely and voluntarily withdraw
13 said Notices of Defense. Respondents acknowledge that they
14 understand that by withdrawing said Notices of Defense they will
15 thereby waive their right to require the Commissioner to prove
16 the allegations in the Accusation at a contested hearing held in
17 accordance with the provisions of the APA and that they will
18 waive other rights afforded to them in connection with the
19 hearing, such as the right to present evidence in defense of the
20 allegations in the Accusation and the right to cross-examine
21 witnesses.
22

23 4. This Stipulation is based on the factual
24 allegations contained in the Accusation filed in this
25 proceeding. In the interest of expedience and economy,
26 Respondents choose not to contest these factual allegations, but
27 to remain silent and understand that, as a result thereof, these

1 factual statements, will serve as a prima facie basis for the
2 disciplinary action stipulated to herein. The Real Estate
3 Commissioner shall not be required to provide further evidence
4 to prove such allegations.

5 5. This Stipulation and Respondents' decision not to
6 contest the Accusation is made for the purpose of reaching an
7 agreed disposition of this proceeding and is expressly limited
8 to this proceeding and any other proceeding or case in which the
9 Department of Real Estate ("Department"), the state or federal
10 government, or an agency of this state, another state or the
11 federal government is involved.

12 6. It is understood by the parties that the Real
13 Estate Commissioner may adopt the Stipulation as his decision
14 in this matter thereby imposing the penalty and sanctions on
15 Respondents' real estate licenses and license rights as set
16 forth in the below "Order". In the event that the Commissioner
17 in his discretion does not adopt the Stipulation, the
18 Stipulation shall be void and of no effect, and Respondents
19 shall retain the right to a hearing on the Accusation under all
20 the provisions of the APA and shall not be bound by any
21 stipulation or waiver made herein.
22

23 ///

24 ///

25 ///

26 ///

27

1 7. The Order or any subsequent Order of the Real
2 Estate Commissioner made pursuant to this Stipulation shall not
3 constitute an estoppel, merger or bar to any further
4 administrative or civil proceedings by the Department of Real
5 Estate with respect to any conduct which was not specifically
6 alleged to be causes for accusation in this proceeding.

7 DETERMINATION OF ISSUES

8 By reason of the foregoing stipulations and waivers
9 and solely for the purpose of settlement of the pending
10 Accusation without a hearing, it is stipulated and agreed that
11 the following determination of issues shall be made:

12 The conduct, acts and/or omissions of Respondents
13 KMG MORTGAGE SERVICES, INC., SHANNON KAY STRANGE, and JOHN EDGAR
14 WEST, as set forth in the Accusation, constitute cause for the
15 suspension or revocation of all of the real estate licenses and
16 license rights of Respondents under the provisions of Section
17 10177(d) of the Business and Professions Code ("Code") for
18 violation of Code Section 10177.4.

19 ORDER

20 I

21 All licenses and licensing rights of Respondents KMG
22 MORTGAGE SERVICES, INC., SHANNON KAY STRANGE, and JOHN EDGAR
23 WEST under the Real Estate Law are suspended for a period of
24 ninety (90) days from the effective date of this Decision;
25 provided, however, that ninety (90) days of said shall be stayed
26 upon condition that:
27

1 a. Respondent pays a monetary penalty pursuant to
2 Section 10175.2 of the Business and Professions Code at the rate
3 of \$111.11 for each day of the suspension for a total monetary
4 penalty of \$10,000 (\$30,000 for all Respondents).

5 b. Said payment shall be in the form of a
6 cashier's check or certified check made payable to the Recovery
7 Account of the Real Estate Fund. Said check must be received by
8 the Department prior to the effective date of the Decision in
9 this matter.

10 c. No further cause for disciplinary action
11 against the real estate license of Respondent occurs within one
12 year from the effective date of the Decision in this matter.

13 d. If Respondent fails to pay the monetary penalty
14 in accordance with the terms and conditions of the Decision, the
15 Commissioner may, without a hearing, order the immediate
16 execution of all or any part of the stayed suspension in which
17 event the Respondent shall not be entitled to any repayment nor
18 credit, prorated or otherwise, for money paid to the Department
19 under the terms of this Decision.

20 e. If Respondent pays the monetary penalty and if
21 no further cause for disciplinary action against the real estate
22 license of Respondent occurs within one year from the effective
23 date of the Decision, the stay hereby granted shall become
24 permanent.
25
26
27

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

DATED: March 24, 2008 James R. Peel
JAMES R. PEEL, Counsel for the
Department of Real Estate

* * *

We have read the Stipulation and Agreement, have discussed it with our attorney, and its terms are understood by us and are agreeable and acceptable to us. We understand that we are waiving rights given to us by the California Administrative Procedure Act (including but not limited to Sections 11506, 11508, 11509 and 11513 of the Government Code), and we willingly, intelligently and voluntarily waive those rights, including the right of requiring the Commissioner to prove the allegations in the Accusation at a hearing at which we would have the right to cross-examine witnesses against us and to present evidence in defense and mitigation of the charges.

Respondents can signify acceptance and approval of the terms and conditions of this Stipulation and Agreement by faxing a copy of the signature page, as actually signed by Respondents, to the Department at the following telephone/fax number: (213) 576-6917. Respondents agree, acknowledge and understand that by electronically sending to the Department a fax copy of his or her actual signature as it appears on the Stipulation and

1 Agreement, that receipt of the faxed copy by the Department
2 shall be as binding on Respondent as if the Department had
3 received the original signed Stipulation and Agreement.

4 Further, if the Respondents are represented, the
5 Respondents' Counsel can signify his or her agreement to the
6 terms and conditions of the Stipulation and Agreement by
7 submitting that signature via fax.

8
9
10 DATED: _____

KMG MORTGAGE SERVICES, INC.
Respondent

11
12
13
14 DATED: _____

SHANNON KAY STRANGE
Respondent

15
16
17 DATED: _____

JOHN EDGAR WEST
Respondent

18
19
20 DATED: _____

KEVIN SPAINHOUR
Counsel for Respondents

Mar-17-2008 10:53am From-KEYS
MAR 14, 2008 10:53 AM

8484571599
1001123041

P.010/010 F-523

Mar-12-2008 02:37pm From-KEYSTONE
03/12/2008 12:55 7143753740
JAN-31-08 THU 07:54 AM

8484571599
FAX NO.

P.007/000 F-500

P. 14/16

1 Agreement, that receipt of the faked copy by the Department
2 shall be as binding on Respondent as if the Department had
3 received the original signed stipulation and Agreement.

4 Further, if the Respondents are represented, the
5 Respondents' counsel can signify his or her agreement to the
6 terms and conditions of the stipulation and Agreement by
7 submitting that signature via fax.


8
9
10 DATED: 3/17/08


KMS MORTGAGE SERVICES, INC.
Respondent

11
12
13
14 DATED: 3/13/08


SHANNON KAY STRANGE
Respondent

15
16
17 DATED: 3/17/08


JOHN EDGAR WOOT
Respondent

18
19
20 DATED: 3/19/08


KEVIN A SPAINHOUR
Counsel for Respondents

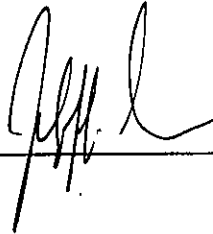
* * *

1 The foregoing Stipulation and Agreement is hereby
2
3 adopted as my Decision and Order in this matter, and shall
4 become effective at 12 o'clock noon on June 17, 2008.

5 IT IS SO ORDERED

4-10-08

6
7 JEFF DAVI
8 Real Estate Commissioner

9
10 
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

SAC TO
file

FILED
SEP 27 2007
DEPARTMENT OF REAL ESTATE

1 JAMES R. PEEL, Counsel (SBN 47055)
2 Department of Real Estate
3 320 West Fourth St., #350
4 Los Angeles, CA 90013

4 (213) 576-6982
4 (213) 576-6913

By 

8 BEFORE THE DEPARTMENT OF REAL ESTATE
9 STATE OF CALIFORNIA

10 * * * *

11 In the Matter of the Accusation of) No. H-34344 LA
12)
13 KMG MORTGAGE SERVICES, INC.,)
13 and SHANNON KAY STRANGE as) A C C U S A T I O N
14 designated broker officer of)
14 KMG Mortgage Services, Inc.,)
15 and JOHN EDGAR WEST,)
16 _____ Respondents.)

17 The Complainant, Robin L. Trujillo, a Deputy Real
18 Estate Commissioner, for cause of Accusation against KMG MORTGAGE
19 SERVICES, INC., and SHANNON KAY STRANGE, individually and as
20 designated broker-officer of KMG Mortgage Services, Inc., and
21 JOHN EDGAR WEST, is informed and alleges as follows:

22 1.

23 The Complainant, Robin L. Trujillo, a Deputy Real
24 Estate Commissioner of the State of California, makes this
25 Accusation in her official capacity.
26

2.

1
2 Respondent KMG MORTGAGE SERVICES, INC. (hereinafter
3 "KMG MORTGAGE SERVICES") is presently licensed and at all times
4 relevant herein was licensed by the Department of Real Estate of
5 the State of California ("Department") under the Real Estate Law,
6 Part 1 of Division 4 of the California Business and Professions
7 Code (hereinafter "Code") as a corporate real estate broker.
8 Respondent KMG MORTGAGE SERVICES was originally licensed by the
9 Department as a corporate real estate broker on or about November
10 10, 1994.

11
12 3.

13 At all times relevant herein, Respondent KMG MORTGAGE
14 SERVICES was and is authorized to act as a real estate broker by
15 and through Respondent SHANNON KAY STRANGE as the designated
16 officer and broker responsible, pursuant to the provisions of
17 Code Section 10159.2, for the supervision and control of the
18 activities conducted on behalf of Respondent KMG MORTGAGE
19 SERVICES by Respondent KMG MORTGAGE SERVICES' officers and
20 employees.

21
22 4.

23 At all times herein mentioned, Respondent JOHN EDGAR
24 WEST was licensed by the Department of Real Estate as a real
25 estate salesperson.
26
27

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

5.

At all times material herein, Respondent KMG MORTGAGE SERVICES, engaged in the business of, acted in the capacity of, advertised or assumed to act as a real estate broker within the meaning of Code Section 10131(a) and (d), representing another or others in the purchase, sale or exchange of real property, and soliciting and negotiating loans on real property.

6.

All further references to "Respondents", unless otherwise specified, include the parties identified in Paragraphs 2 through 4 above, and also include the employees, agents and real estate licensees employed by or associated with said parties, who at all times herein mentioned were engaged in the furtherance of the business or operations of said parties and who were acting within the course and scope of their authority and employment.

UNLAWFUL REFERRAL OF CUSTOMERS FOR COMPENSATION

(Business and Professions Code Section 10177.4)

"Participation Agreement"

7.

Beginning on or about September 30, 2004, Respondents, and each of them, in connection with their real estate activities set forth in Paragraph 4 above, engaged in a reinsurance program with Land America Reinsurance Services, Inc., and its affiliates (hereafter collectively referred to as "LARS"). Pursuant to this agreement, in connection with the real

1 estate activities of Respondents, the title companies would issue
2 title insurance policies, and in exchange, Respondents would
3 claim, demand and receive compensation in the form of reinsurance
4 "premiums" and additional periodic distributions of capital.

5 8.

6 Specifically, on or about September 30, 2004,
7 Respondents dba KMG Realty executed a "Participation Agreement"
8 with LARS. Pursuant to the Participation Agreement, Respondents
9 would claim, demand and receive fees and compensation for every
10 real estate transaction in which the parties purchased title
11 insurance from LARS or its affiliates.

12 9.

13 In 2005, the California Department of Insurance (DOI)
14 held public hearings relating to the business practice of
15 entering into the types of reinsurance agreements described
16 above. At these hearings, it was determined that the typical
17 loss ratio as to title insurance is three to five percent. DOI
18 found that there is in fact little or no risk transferred to the
19 reinsurer (such as, in this case, the real estate broker) in
20 exchange for the portion of premium they are collecting.
21 Further, DOI found that in California, the normal practice is not
22 to have a reinsurer in connection with title business. DOI
23 determined that the reinsurance agreements of the type entered
24 into between LARS and related affiliates and Respondents were not
25 legitimate reinsurance agreements. Rather, these agreements were
26 created as part of a scheme under which title insurers were
27 paying real estate brokers illegal rebates in the form of

1 "premiums" on fictitious reinsurance paid to captive reinsurers
2 in exchange for the brokers channeling business to the title
3 companies.

4 10.

5 For the period between September of 2004 and March of
6 2005, Respondents claimed, demanded and received distributions of
7 \$12,189 in fees and compensation for referring parties to LARS
8 and LARS affiliates as a result of real property transactions
9 negotiated by Respondent KMG MORTGAGE SERVICES.

10 11.

11 The conduct, acts and/or omissions of Respondent KMG
12 MORTGAGE SERVICES as set forth in Paragraphs 2 through 10 above
13 are in violation of Code Section 10177.4, and constitute grounds
14 to suspend or revoke Respondent KMG MORTGAGE SERVICES' real
15 estate broker license pursuant to Business and Professions Code
16 Sections 10177(d) and 10177(g) for claiming, demanding or
17 receiving commissions, fees or other consideration from a title
18 insurance company for referral of customers to the title
19 insurance company.

20 12.

21 The conduct, acts and/or omissions of Respondents
22 STRANGE and WEST, as set forth in Paragraphs 2 through 10 above,
23 are in violation of Code Section 10177.4, and constitute grounds
24 to suspend or revoke Respondent's real estate licenses and/or
25 license rights pursuant to Business and Professions Code Section
26 10177(g) and/or 10177(d).

27

1 WHEREFORE, Complainant prays that a hearing be
2 conducted on the allegations of this Accusation and that upon
3 proof thereof, a decision be rendered imposing disciplinary
4 action against all licenses and/or license rights of Respondent
5 KMG MORTGAGE SERVICES, INC., a corporate real estate broker, and
6 Respondent SHANNON KAY STRANGE, individually and as designated
7 broker-officer of KMG Mortgage Services, Inc., and Respondent
8 JOHN EDGAR WEST and for such other and further relief as may be
9 proper under applicable provisions of law.

10
11 Dated at Los Angeles, California

12 this 26 day of September, 2007.

13
14
15 
16 ROBIN L. TRUJILLO
17 Deputy Real Estate Commissioner
18
19
20
21
22
23

24 cc: KMG Mortgage Services, Inc.
25 Shannon Kay Strange
26 John Edgar West
27 Robin L. Trujillo
 Sacto.