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8  
9 BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT  
10 OF THE STATE OF CALIFORNIA  
11

12	In the Matter of	)	LICENSE NO. 963-1894
13		)	
14	THE COMMISSIONER OF BUSINESS	)	1) ORDER BARRING THOMAS
15	OVERSIGHT,	)	HINSON III FROM ANY POSITION
16		)	OF EMPLOYMENT, MANAGEMENT
17	Complainant,	)	AND CONTROL OF ANY ESCROW
18		)	AGENT
19	v.	)	(California Financial Code section 17423)
20	PAR ESCROW CORPORATION and	)	2) ORDER REVOKING PAR ESCROW
21	THOMAS HINSON III,	)	COPORATION'S ESCROW AGENT
22		)	LICENSE
23	Respondents.	)	(California Financial Code section 17608)
24		)	

21 The Commissioner of Business Oversight ("Commissioner") finds that:

22 Par Escrow Corporation ("Par") is an escrow agent licensed by the Commissioner pursuant to  
23 the Escrow Law of the State of California (California Financial Code Section 17000 et seq.), with its  
24 principal place of business at 3111 Camino Del Rio North, Suite # 103, San Diego, CA 92108.

25 Thomas Hinson III ("Hinson"), was at all relevant times, President and majority shareholder in Par.

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1 I.

2 **May 8, 2012 Examination**

3 On May 8, 2012, the Commissioner commenced an examination of Par based upon  
4 information contained in Par's annual report that indicated funds from Par's dormant trust account  
5 was being transferred to Par's operating account. Par's balance sheet reflected that there was an  
6 outstanding transfer of \$37,326.46 from the dormant trust account to Par's operating account that was  
7 not yet returned and was recorded as "due to trust" on Par's balance sheet. Financial Code section  
8 17409 prohibits the commingling of trust funds with general funds and Financial Code section  
9 17414(a)(1) prohibits the disbursement of trust funds except in the accordance with the escrow  
10 instructions of the principals.

11 The Commissioner's examiner arrived at Par's office on May 8, 2012 and requested to speak  
12 with Hinson concerning the \$37,326.46 that was owed to the dormant trust account. The examiner  
13 was able to speak with Hinson on the phone later during the week. Hinson told the examiner that the  
14 \$37,326.46 had been replaced in the dormant trust account and that the transfer of money from the  
15 dormant trust account to Par's operating account was an error that was caused by accidentally  
16 choosing the wrong bank account when doing online wire transfers. The examiner requested that  
17 Hinson provide documentation to the Commissioner proving that the trust funds were replaced and  
18 also documentation showing the disbursements that were made from the trust account.

19 On or about July 25, 2012, Par provided bank statements and its general ledger to the  
20 examiner. The examiner requested additional banking information to determine when the dormant  
21 trust account was opened to determine when the unauthorized disbursements took place. The  
22 examiner determined from the bank records that the dormant trust account was open on April 11,  
23 2011, and that Hinson made the unauthorized disbursements between May 26, 2011 and May 31,  
24 2012.

25 Between May 26, 2011 and May 31, 2012, there were twenty-nine (29) unauthorized  
26 disbursements made from the dormant trust account in an amount of approximately \$396,312.96.  
27 While three of the disbursements appeared to be made in error and one of the disbursements was  
28 replaced the next day, the remaining twenty-five (25) disbursements were unauthorized transfer of

1 money from Par's dormant trust account to Par's general account, in violation of Financial Code  
2 section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2. A chart  
3 describing each of the twenty-nine disbursements is attached and incorporated herein as Exhibit A.

4 The following is an example:

5 1) On or about May 26, 2011, Hinson disbursed \$4,919.00 from Par's dormant trust  
6 account into a City National Bank account in the name of Hinson, in violation of Financial Code  
7 section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2.

8 Par replaced funds in the dormant trust account on an ongoing basis between 2011 and 2012  
9 from their general operating or business expense account.

10 The Commissioner's examiner spoke with Hinson on or about July 25, 2012 and Hinson  
11 admitted that he had temporarily "borrowed" funds from the dormant trust account to pay for Par's  
12 operating expenses due to steep declines in revenue, in violation of Financial Code section  
13 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2. At the time,  
14 Hinson claimed that he was unaware that transferring trust funds to non-trust accounts on a temporary  
15 basis violated the Escrow Law and that the transfers ceased after May 2012 due to a cash infusion Par  
16 received. Hinson also sent an email to the Special Administrator of the Escrow Law later that day  
17 confirming that he had been using dormant trust account money to pay for operating expenses.

## 18 II.

### 19 April 2013 Examination

20 On April 15, 2013, the Commissioner conducted a follow-up examination of Par regarding the  
21 transfer of trust funds from the trust account to the operating account. The Commissioner's examiner  
22 reviewed Par's trust and non-trust accounts from the period of June 2012- April 2013. The follow-up  
23 examination revealed that Hinson, despite prior warnings from the Commissioner and  
24 acknowledgement of the illegality of unauthorized disbursements, continued making unauthorized  
25 disbursements from Par's trust fund in violation of Financial Code section 17414(a)(1) and California  
26 Code of Regulations, title 10, sections 1738 and 1738.2. The Commissioner's examiner wrote a letter  
27 to Hinson on that same day demanding that Hinson immediately replace all funds that were  
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1 unlawfully disbursed out of Par's trust account by April 16, 2013. Hinson confirmed in an email later  
2 that day that he received the Commissioner letter.

3         The Commissioner's examiner met with Hinson on or about April 16, 2013. Hinson told the  
4 Commissioner's examiner that he resumed transferring money from Par's trust account to Par's  
5 operating account sometime in late 2012 in order to pay Par's operating expenses and that by March  
6 2013, Hinson was unable to fully replace the trust funds that he transferred out. Hinson stated that  
7 Par's trust shortage was \$76,776.50, in violation of California Code of Regulations, title 10, section  
8 1738.1, which prohibits shortages in trust accounts.

9         The Commissioner's examiner reconciled Par's trust accounts and confirmed Hinson's  
10 admission that Par's trust shortage amounted to \$76,776.50. The trust account reconciliation revealed  
11 the following:

12         1)       At the end of December 2012, Par earned \$116,274.73 in escrow fees; however,  
13 \$124,555.82 was transferred out of the trust account into Par's operating and business expense  
14 accounts. This resulted in a trust shortage of \$8,281.09, taking into account \$228.68 that was  
15 transferred into the trust account on December 10, 2012;

16         2)       At the beginning of January 2013, \$8,281.09 was transferred into Par's trust account  
17 to cover the trust account shortage. Par earned \$109,202.41 in escrow fees in January 2013.  
18 \$98,209.65 was transferred out of the trust account into Par's operating account. This resulted in a  
19 trust balance of \$2,711.67 and there was no trust account shortage at the end of January 2013;

20         3)       At the end of February 2013, Par earned \$91,057.03 in escrow fees; however,  
21 \$104,816.62 was transferred out of Par's trust account and into Par's operating and business expense  
22 accounts, creating a trust shortage of \$13,759.59. When taking into account the \$2,711.67 balance in  
23 Par's trust account at the end of January 2013, Par's total trust shortage at the end of February 2013  
24 was \$11,047.92;

25         4)       At the end of March 2013, Par earned \$102,293.67 in escrow fees; however,  
26 \$174,096.70 was transferred out of Par's trust account and into Par's operating account. On or about  
27 March 29, 2013, \$25,850.95 was transferred from Par's operating account back into Par's trust  
28 account. Despite this transfer of funds from Par's operating account, Par still had a trust shortage of

1 \$57,000 at the end of March 2013, taking into account the \$11,047.92 shortage that already existed in  
2 Par's trust account at the end of February 2013; and

3 5) As of April 19, 2013, Par earned \$55,756.49 in escrow fees; however, \$75,532.99 was  
4 transferred out of Par's trust account into Par's operating account. This resulted in a trust shortage of  
5 \$19,776.50. Taking into account \$30.00 that was transferred into Par's trust account and the trust  
6 shortage of \$57,000 that existed at the end of March 2013, Par's total trust account shortage at the  
7 end of April 19, 2013 was \$76,776.50.

8 On April 19, 2013, the Commissioner's examiner sent a 24-hour demand to Hinson to replace  
9 Par's trust fund shortage of \$76,776.50. On April 22, 2013, the Commissioner's examiner returned  
10 to Par and spoke with Hinson who indicated that he had not replaced the trust funds yet but would  
11 replace it on April 23, 2013. On the same day, Hinson signed a Letter with Understanding with  
12 Michael Smith whereby Hinson resigned as an officer, employee, consultant, and member of the  
13 Board of Directors of Par in exchange for replacement of the shortage Par's trust account in the  
14 amount of \$76,776.50.

15 On April 23, 2013, the Commissioner's examiner confirmed that \$76,776.50 was wired back  
16 to Par's trust account.

### 17 III.

#### 18 **Lack of Surety Bond, Liquid Asset and Tangible Net Worth Deficiencies, and Unpaid Annual** 19 **Assessment**

20 On or about August 19, 2013, the Commissioner received notice from Par's bond company  
21 that they intend to cancel Par's surety bond effective November 9, 2013. On or about August 23,  
22 2013, the Commissioner sent a letter by certified mail with return receipt requested to Par to obtain a  
23 replacement bond immediately. The return receipt was signed by Par on August 29, 2013.

24 Par failed to obtain and file a replacement bond with the Commissioner in violation of  
25 Financial Code section 17202.

26 Pursuant to Financial Code section 17210, all licensees under the Escrow Law are required to  
27 maintain at all times, a tangible net worth of fifty-thousand dollars (\$50,000), including liquid assets  
28 of at least twenty-five thousand dollars (\$25,000) in excess of current liabilities.

1 A review of Par's balance sheet as of March 31, 2013, reflected that Par was deficient in  
2 meeting the net worth requirements by \$90,233.50 and the liquid asset requirement by \$113,259.65.  
3 Par has not corrected the liquid asset and tangible net worth deficiency in violation of Financial Code  
4 section 17210.

5 Pursuant to Financial Code section 17207, all licensees under the Escrow Law are required to  
6 pay an annual assessment to the Commissioner in the amount of \$2,800 by June 30th.

7 Par has not paid its annual assessment for the 2013/2014 year in violation of Financial Code  
8 section 17207.

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**IV.**

**Order Barring Thomas Hinson III Pursuant to Financial Code Section 17423 and Order  
Revoking Par Escrow Corporation’s Escrow Agent License Pursuant to Financial Code Section  
17608**

On May 30, 2014, the Commissioner issued a Notice of Intention to Issue Order Revoking Escrow Agent’s License and to Issue Order Pursuant to Financial Code Section 17423 (Bar from Employment, Management, or Control of Any Escrow Agent), Accusation and accompanying documents against Hinson and Par and Hinson was personally served with those documents on July 29, 2014, on behalf of himself and Par Escrow Corporation.

There has been no request for a hearing received by the Commissioner and the statutory time period to request a hearing has expired.

The above-described violations constitute grounds under California Financial Code section 17423 to bar a person from any position of employment, management or control of any escrow agent.

Additionally, the above-described violations also constitute grounds under California Financial Code section 17608 to revoke an escrow agent’s license.

THEREFORE, it is hereby ordered that Respondent Thomas Hinson III is barred from any position of employment, management or control of any escrow agent.

It is further ordered that Respondent Par Escrow Corporation’s escrow agent is hereby revoked.

This Order is effective as of the date hereof.

Dated: August 28, 2014  
Los Angeles, California

JAN LYNN OWEN  
Commissioner of Business Oversight

By \_\_\_\_\_  
MARY ANN SMITH  
Deputy Commissioner  
Enforcement Division