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Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of	)	No. D 07- 0323
ARTHUR CERVANTES and NORTHWEST FINANCIAL EXCHANGE, INC., *Licensees.*	)	**ORDER REVOKING LICENSE**

To: Northwest Financial Exchange, Inc. and
Arthur Cervantes
11661 SE 1st Street #101
Bellevue, WA 98005

IT IS ORDERED AND YOU ARE HEREBY NOTIFIED that your licenses are **REVOKED**, effective November 13, 2007, pursuant to RCW 48.17.530 and 48.17.540(2).

THIS ORDER IS BASED ON THE FOLLOWING:

1. Arthur Cervantes is licensed to sell life and disability insurance in Washington. Northwest Financial Exchange, Inc. is a business entity owned and operated by Mr. Cervantes that is licensed as a Washington insurance agency.

2. In June 2006, in order to generate a 9 percent commission, Mr. Cervantes convinced a 91 year old Washington consumer; hereinafter consumer #1, to whom he had previously sold an annuity, to surrender two annuities the consumer had held for several years in order to purchase an annuity from the National Foundation of America (NFOA).

3. Mr. Cervantes misrepresented both the contracts to be replaced and the replacing product and misled the consumer, promising consumer #1 that (1) the NFOA annuity would pay 7 percent interest; (2) there would be no loss of interest on the Allstate annuities; (3) there would be no surrender charges on the consumer's existing Allstate annuities; (4) the consumer's money would grow from $420,554 to $504,185 in five years; (5) the consumer could have total access to all of his funds at any time; and (6) the consumer would be entitled to a substantial income tax deduction. Each of these representations was false.

4. NFOA was not an authorized insurer in Washington or any other state. Its annuity forms had never been filed or approved for use in Washington or any other state. It did not hold a certificate of exemption to conduct a charitable gift annuity

business in Washington or any other state, and it had never been granted charitable tax exempt status under Section 501(c)(3) of the Internal Revenue Code. NFOA has been placed into receivership in Tennessee as an illegal insurer at the behest of the Commissioner of the Tennessee Department of Commerce and Insurance and is presently being liquidated.

5. Mr. Cervantes failed to present to consumer #1 the completed form to be used for notice regarding replacement. As Mr. Cervantes was leaving the consumer's home with the paperwork, the consumer reconsidered and asked Mr. Cervantes to return the paperwork and stop everything. Mr. Cervantes refused, drove off with the paperwork, and processed the consumer's paperwork.

6. In July 2005, Mr. Cervantes contacted a 74 year old retiree, consumer #2, to discuss a supposed gap in her existing long term care policy. Mr. Cervantes learned that the consumer had recently purchased a universal life insurance policy with Columbus Life through another agent. In order to access the consumer's money in this other policy so that he could sell her an annuity on which he could earn a commission, Mr. Cervantes misrepresented the benefits of the consumer's existing coverage and convinced her that the agent who had sold the universal life policy was incompetent and had sold her an unsuitable product for which she had no use. Mr. Cervantes drafted a complaint letter for the consumer to sign to Office of Insurance Commissioner seeking the OIC's aid in obtaining a refund of the funds she had invested in the Columbus Life policy. The consumer subsequently retracted her complaint against the other agent and advised the OIC that she was completely happy with his sale and service at all times.

7. In March 2005, Mr. Cervantes obtained an in home meeting with a 90 year old consumer, consumer # 3, ostensibly to discuss her long term care insurance. Instead, when Mr. Cervantes learned the consumer had several existing annuities with Western United and American Investors, he attempted to induce her to surrender her existing annuities by misrepresenting the annuitization options available to her under her existing contracts, by falsely telling her that because Western United was in receivership, her investment was in grave danger of being lost, and by misrepresenting the benefits of the replacing contract.

8. Agent Cervantes was fined $1,500 in 1998 for violations of WAC 284-23-440(2), RCW 48.30.040, and RCW 48.30.210, and he has received four past reprimand letters, and one letter of counsel from the OIC for improper and overly aggressive sales activities.

9. By knowingly making and disseminating false, deceptive and misleading representations in the conduct of the business of insurance, the Licensee violated RCW 48.30.040.

10. By knowingly making false statements or representations in or relative to applications for insurance, the Licensee violated RCW 48.30.210.

11. By selling annuities that were not approved by the OIC in Washington and to Washington residents, the Licensee knowingly caused and participated in the violation of RCW 48.18.100, prohibiting the use of unapproved policy forms.

12. By selling annuities issued by an unauthorized insurer, the Licensee violated RCW 48.15.020 and RCW 48.15.023.

13. By making misleading comparisons and misrepresentations to insureds to induce them to lapse or convert existing policies, the Licensee violated RCW 48.30.180.

14. By misrepresenting the terms, benefits, and advantages of policies, the Licensee violated RCW 48.30.090.

15. By failing to obtain, fill out, sign, or submit replacement forms to replacing insurers, the Licensee violated WAC 284-23-440.

16. RCW 48.17.530 provides that: (1) The Commissioner may suspend, revoke, or refuse to issue any license . . . for any cause specified in any other provision of this code, or for any of the following causes:

> (b) If the licensee . . . willfully violates . . . any provision of this code . . . .
> (e) If the licensee . . . has, with intent to deceive, materially misrepresented the . . . effect of any insurance contract; or has engaged in . . . any fraudulent transaction.
> (h) If the licensee or applicant has shown himself to be, and is so deemed by the commissioner, incompetent, or untrustworthy, or a source of injury and loss to the public.

By reason of your conduct, you have shown yourself to be, and are so deemed by the Commissioner, untrustworthy and a source of injury and loss to the public and not qualified to be an insurance agent in the State of Washington. Accordingly, your license is revoked pursuant to RCW 48.17.530(1) (b), (e), and (h).

IT IS FURTHER ORDERED that you return your insurance agent's and agency license certificates to the Commissioner on or before the effective date of the revocation of your licenses, as required by RCW 48.17.530(4).

NOTICE CONCERNING YOUR RIGHT TO A HEARING. Please note that a detailed summary of your right to contest this Order is attached. Briefly, if you are aggrieved by this Order, RCW 48.04.010 permits you to demand a hearing. Pursuant to that statute and others: You must demand a hearing, in writing, within 90 days after the

date of this Order, which is the day it was mailed to you, or you will waive your right to a hearing. Your demand for a hearing must specify briefly the reasons why you think this Order should be changed. If your demand for a hearing is received by the Commissioner before the effective date of the revocation, then the revocation will be stayed (postponed) pending the hearing, pursuant to RCW 48.04.020. Upon receipt of your demand for hearing, you will be contacted by an assistant of the Chief Hearing Officer to schedule a teleconference with you and the Insurance Commissioner's Office to discuss the hearing and the procedures to be followed.

Please send any demand for hearing to Insurance Commissioner, attention John Hamje, Deputy Insurance Commissioner, Office of the Insurance Commissioner, P.O. Box 40257, Olympia, WA 98504-0257.

ENTERED AT TUMWATER, WASHINGTON, this 23rd day of October, 2007.

MIKE KREIDLER
Insurance Commissioner

By

JOHN F. HAMJE
Deputy Insurance Commissioner
Consumer Protection Division

Investigator: Vic Overholt

DECLARATION OF MAILING

I certify under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery of a true copy of this document to ***Northwest Financial Exchange, Inc. and Arthur Cervantes***.

Dated: October 23, 2007
At Tumwater, Washington

Victoria Estrada
Victoria Estrada

NOTICE OF YOUR RIGHT TO A HEARING

You have the right to demand a hearing to contest this Order. During this hearing, you can present your argument that the Order should not have been entered for legal and/or factual reasons and/or to explain the circumstances surrounding the activities which are the subject of this Order. You may be represented by an attorney if you wish, although in some hearings before this agency parties do choose to represent themselves without an attorney.

Your Demand for Hearing should be sent to John F. Hamje, Deputy Insurance Commissioner, Office of the Insurance Commissioner, P.O. Box 40257, Olympia, WA 98504-0257, and must briefly state how you are harmed by this Order and why you disagree with it. You will then be notified both by telephone and in writing of the time and place of your hearing. If you have questions concerning filing a Demand for Hearing or the hearing process, please telephone the Hearings Unit, Office of the Insurance Commissioner, at 360/725-7002.

Your Demand for Hearing must be made within 90 days after the date of this Order, which is the date of mailing, or your Demand will be invalid and this Order will stand. If your Demand for Hearing is received before the effective date of this Order, the penalties contained in the Order will be stayed (postponed) until after your hearing.

It is important to know that if you demand a hearing, you will have two options for how it will be handled:

Option 1: Unless you specifically request Option 2, your hearing will be presided over by an administrative law judge from the Office of the Insurance Commissioner. Under this option, upon receipt of your Demand for Hearing, the Insurance Commissioner may refer the case to an administrative law judge. The administrative law judge is an individual who has not had any involvement with this case. The administrative law judge will hear and make the final decision in the case without any communication, input or review by the Insurance Commissioner or staff or any other individual who has knowledge of the case. This administrative law judge's final decision may uphold or reverse the Commissioner's action or may instead impose any penalties which are less than those contained in the Order.

Option 2: If you elect, your hearing will be presided over by an administrative law judge from the Office of Administrative Hearings. That administrative law judge will issue an initial or recommended decision which will then be sent to the Insurance Commissioner. The Insurance Commissioner, or his designee, will review the initial decision and make the final decision. The Insurance Commissioner's final decision in the case may uphold, reverse or modify the initial decision, thereby changing the penalty which is recommended in the initial decision. In writing the final decision, the Insurance Commissioner is not bound by the findings of facts or conclusions of law which were made in the initial decision.