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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **-against-** **NJ AFFORDABLE HOMES CORP., WAYNE PUFF and KENNETH LAGONIA,** **Defendants.**	**05 Civ. 4403 (JLL)** **AMENDED COMPLAINT**

Plaintiff Securities and Exchange Commission, 3 World Financial Center, New York, N.Y. 10281, for its Amended Complaint against Defendants NJ Affordable Homes

Corp. ("NJ Affordable"), formerly located at 100 W. Pond Road, Perth Amboy, NJ 08861, Wayne Puff, 81 Wiley Street, Avenel, N.J. 07001, and Kenneth Lagonia, 17 Surrey Lane, Manorville, New York 11949-2536 (collectively, the "Defendants"), alleges as follows:

SUMMARY

1. From at least 1999 to September 12, 2005, NJ Affordable and Puff, NJ Affordable's founder and owner, through unregistered and fraudulent offerings of securities in the form of notes, investment contracts and other evidence of indebtedness, raised more than $90 million from at least 500 investors in New Jersey and other parts of the United States. Lagonia, a consultant to NJ Affordable, and President of Quality Homes aRe Us ("Quality Homes"), a NJ Affordable affiliate, joined NJ Affordable and Puff in this conduct beginning in the fall of 2003. Lagonia played an integral role in the company's final two years in soliciting investments from both new and existing investors, and perpetuating the Ponzi scheme.

2. Throughout the relevant period, NJ Affordable, Puff and (beginning in late 2003) Lagonia solicited investors with promises of 15% per annum or greater on notes and other instruments and guaranteed the investments as safe and secure. Most of the notes sold by NJ Affordable were marketed as secured by first mortgage liens on distressed real property purchased by NJ Affordable. Puff and NJ Affordable told investors that their returns would be funded by the renovation of the properties and profits on resale.

3. NJ Affordable, Puff and (beginning in late 2003) Lagonia, misrepresented to investors the prospects of receiving payment of the interest and repayment on the

principal investment. Puff and Lagonia knew, but did not disclose, among other things, that (1) NJ Affordable's properties were over-valued; (2) many of the sales of NJ Affordable properties were to straw buyers at inflated prices and resulted in increased and undisclosed debt obligations to NJ Affordable; (3) NJ Affordable had a negative net worth and ever-worsening cash flow problems; (4) in Ponzi-scheme fashion, NJ Affordable was using moneys raised from new investors to pay the interest and principal to prior investors because its operations could not sustain payments of 15% annual returns to investors; (5) NJ Affordable was delinquent in its tax filings and its bank accounts had been levied by the IRS; (6) NJ Affordable's books and records were in disarray, it had few financial controls, and it could not prepare audited financial statements; and (7) substantial funds and assets were transferred from NJ Affordable to Puff and his family.

4. NJ Affordable, Puff and Lagonia failed to register with the Commission their offerings of securities in the form of notes, investment contracts and other evidence of indebtedness, despite the fact that (a) New Jersey and Pennsylvania securities regulators had previously obtained orders against NJ Affordable and Puff, and (b) NJ Affordable, Puff and (beginning in late 2003) Lagonia were offering and selling these notes and other investments to the general public through telephone solicitations, radio advertisements, advertisements in investor-related newsletters, and solicitations on investment-related websites.

VIOLATIONS

5. By virtue of the conduct alleged herein, NJ Affordable, Puff and Lagonia, directly or indirectly, singly or in concert, have engaged and are engaging in acts,

practices and courses of business, that constitute violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§ 77e(a), 77e(c) and 77q(a), and Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5 thereunder.

6. Unless permanently restrained and enjoined, NJ Affordable, Puff and Lagonia will continue to engage in the acts, practices and courses of business set forth in this Complaint and in acts, practices and courses of business of similar type and object. By this action, the Commission seeks final judgment that, among other things, protect investors by enjoining Defendants from future violations of the securities laws and rules cited above and by requiring the Defendants to disgorge their ill-gotten gains and to pay civil penalties.[1]

JURISDICTION AND VENUE

7. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d)(1) of

1 The Commission originally filed this action on September 12, 2005 and sought immediate, temporary relief by Emergency Application for a Temporary Restraining Order, Preliminary Injunction, Order to Show Cause, Asset Freeze and Other Relief against NJ Affordable and Puff. The Court granted the Commission's emergency application on September 12, 2005, and appointed a temporary receiver. By Order entered September 27, 2005, the Court granted a Preliminary Injunction on Consent against NJ Affordable and Puff, and on October 10, 2005, the Court entered an Amended and Modified Preliminary Injunction Order. On November 22, 2005, the Receiver filed a voluntary petition for relief under Chapter 7 of the Bankruptcy Code on behalf of NJ Affordable, and the Bankruptcy case was referred to the Bankruptcy Court by order entered December 6, 2007. Bankruptcy proceedings are ongoing.

Neither Puff nor NJ Affordable has answered the Commission's initial complaint. The Commission's counsel took the deposition of both Defendant Puff and Defendant Lagonia. Mr. Puff asserted his Fifth Amendment privilege against self-incrimination.

the Exchange Act, 15 U.S.C. § 78u(d)(1), seeking to restrain and enjoin permanently the Defendants from engaging in the acts, practices and courses of business alleged herein.

8. The Commission seeks final judgments ordering the Defendants to disgorge ill-gotten gains with prejudgment interest thereon, and ordering the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d) and Section 21(d)(1) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

9. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e) and 78aa. Venue was proper in the District of New Jersey as the Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. A substantial part of the events and omissions giving rise to the Commission's claims occurred in the District of New Jersey; NJ Affordable, a New Jersey corporation headquartered in this District, received investor funds in this District, engaged in numerous real property transactions in this District in connection with the sale of unregistered securities to investors, some of whom reside in this District, and used bank accounts serviced by banks in this District in connection with its business.

THE DEFENDANTS

10. Until September 2005, NJ Affordable was a New Jersey corporation with offices in Woodbridge and Perth Amboy, New Jersey. It was a real estate investment company that purported to use investors' monies to purchase distressed residential real property, renovate the property, and sell the property at a profit. NJ Affordable was not

registered pursuant to the Exchange Act and its securities did not trade publicly. NJ Affordable was the subject of two prior state regulatory proceedings and injunctions concerning the unregistered sale of securities.

11. Puff, age 59, was the president and sole owner of NJ Affordable, and the sole owner of NJ Affordable affiliate, Quality Homes. Puff resides in Woodbridge, New Jersey.

12. Lagonia, age 55, was a consultant to NJ Affordable and President of Quality Homes. He resides in Manorville, New York, but resided, at least part-time, in East Brunswick, New Jersey, during the time he was employed by NJ Affordable and Quality Homes.

AFFILIATES OF NJ AFFORDABLE AND PUFF

13. There are at least 82 entities that are owned or controlled by, related to, associated or affiliated with, NJ Affordable and Puff ("Affiliated Entities"). Attached as Appendix A to this Complaint is a list of the Affiliated Entities. These entities, many of which are limited liability corporations, consist of: (a) entities described by Puff on guarantees given to certain NJ Affordable investors as owned by him; (b) entities for which Puff served as officer, director, or registered agent according to the records of the NJ Secretary of State; and (c) entities which publicly available property records indicate NJ Affordable used to purchase or sell property owned or controlled by NJ Affordable.

14. At some point in 2004, Puff and Lagonia began to use NJ Affordable's affiliate, Quality Homes, as a new vehicle through which to offer their unregistered securities. Using nearly identical offering and marketing materials as those provided by NJ Affordable, Puff and Lagonia solicited investors to buy Quality Homes' notes. It

appears that Defendants made no attempt to distinguish among NJ Affordable investors and those investing pursuant to Quality Homes' marketing materials and investment agreements, and the monies invested by both groups of investors were commingled. The properties mortgaged to both groups of investors were titled in the name of either NJ Affordable or Quality Homes, or some other NJ Affordable Affiliate.

FACTS

A. The Offerings and Sales of Securities to Investors

15. Since at least 1999, NJ Affordable raised more than $90 million through the offer and sale, to at least 500 investors, of securities in the form of notes, investment contracts and other evidence of indebtedness. Through offering and marketing materials prepared by Puff and disseminated to the public by Puff and (beginning in late 2003) Lagonia, NJ Affordable marketed its "secured savings program" to the general public and represented to investors that these instruments provided large profits, 15% or greater per annum, with no risk. NJ Affordable represented to investors who submitted the basic agreement contained in NJ Affordable's offering packet that their investment would be secured by mortgage liens on real property (such investors are referred to below as "Mortgage Investors"). NJ Affordable represented to other investors that their investment was guaranteed by NJ Affordable, Puff, and/or the assets of "associated corporations" and companies owned by Puff. Such investors executed agreements titled either "Asset Protection Guarantee" or "Joint Venture Agreement."

16. NJ Affordable represented to investors who purchased each class of note, investment contract, or evidence of indebtedness that the principal from each investment would fund NJ Affordable's purchase, renovation and maintenance of properties. NJ

Affordable promised investors that it would repay the principal and interest due on the notes and other evidence of indebtedness by renovating the properties and selling them for a profit.

17. NJ Affordable used various means to market offerings of notes, investment contracts or other evidence of indebtedness to the general public, including, advertisements on radio and in investment-related newsletters, telephone solicitations, and solicitations on investment-related websites. NJ Affordable also paid "money finders" a 4% commission for investment dollars they successfully solicited through telephone calls or other marketing means.

18. None of the offerings of securities by NJ Affordable were registered with the Commission.

1. Mortgage Investors

19. In its offering and marketing materials, NJ Affordable promised Mortgage Investors that their investments were secured by mortgage liens on the properties allegedly bought with investors' funds.

20. NJ Affordable offered two kinds of notes as part of its sale of notes to Mortgage Investors: notes secured by a first mortgage and notes secured by a second mortgage.

21. In its offering materials, NJ Affordable guaranteed investors in the notes secured by a first mortgage that they would receive a 15% annual rate of return, and required that they invest for periods of between 1 and 5 years. Although some Mortgage Investors were permitted to contract for quarterly interest payments, the form agreement provided that interest would be paid at the end of the term and would accrue on a

compounded basis. The fact that interest accrued on a compounded basis while being left in NJ Affordable's hands was one of the selling points of the First Mortgage program, as the offering materials emphasized that investors could "DOUBLE YOUR MONEY IN LESS THAN 5 YEARS."

22. NJ Affordable's offering materials represented to investors that after they submitted a signed copy of the form agreement together with their investment monies, NJ Affordable would provide them with a promissory note secured by a first mortgage on property purchased by NJ Affordable. NJ Affordable further represented that if NJ Affordable sold the property during an investor's investment term, it would provide the investor with another mortgage on a different property. NJ Affordable typically offered First Mortgage Investors no involvement in the selection of the properties on which it issued the mortgages.

23. NJ Affordable represented to investors who purchased notes secured by a second mortgage that they would receive the same investment terms as the notes secured by the first mortgage, except (a) they would receive second mortgages, instead of first mortgages; and (b) they would earn a higher rate of return. The notes secured by second mortgages promised investors returns of between 16 and 20% interest per annum. As with the investors in notes secured by first mortgages, NJ Affordable did not offer purchasers of notes secured by second mortgages an opportunity to participate in the selection of the property NJ Affordable bought and mortgaged.

24. NJ Affordable represented to investors that they would begin accruing interest on their investments as soon as their funds were deposited in an escrow account maintained for NJ Affordable by NJ Affordable's escrow attorney. Thus, regardless of

how long it took NJ Affordable to find and purchase a property with which to secure investor monies, and regardless of whether any profit was ultimately made from the purchase and sale of properties, NJ Affordable guaranteed investors a 15 to 20% rate of return for the entire investment term. In that way, NJ Affordable represented to Mortgage Investors that they were investing in NJ Affordable's overall profitability.

25. Prior to an action commenced by the New Jersey Bureau of Securities (the "NJ Bureau") against NJ Affordable and Puff for, inter alia, the unregistered sale of securities, NJ Affordable routinely secured multiple notes with a percentage of a single mortgage on the same property. However, on November 21, 2002, NJ Affordable, Puff, and the NJ Bureau agreed to a consent judgment entered by the New Jersey Superior Court which ordered NJ Affordable and Puff to offer rescission to any investors whose money was "pooled" and secured by a mortgage on a single property. Notwithstanding the Consent Judgment, NJ Affordable and Puff continued to secure multiple notes sold to investors with interest in mortgages on the same property.

2. Asset Protection Guarantee Investors and Joint Venture Partners

26. NJ Affordable provided Asset Protection Guarantee investors with agreements similar to the First Mortgage Investors, except that instead of being secured by mortgages, the promissory notes that NJ Affordable issued to them were secured by guarantees issued by Puff on behalf of himself, NJ Affordable, "associated corporations," and certain NJ Affordable Affiliated Entities. In return, NJ Affordable promised investors higher interest rates, such as 20%. The Asset Protection Guarantee agreements that NJ Affordable provided to investors stated that the funds "are to be utilized towards the cost of the purchase, closing costs, repair and marketing of residential homes for

resale." The agreements specified no particular properties and NJ Affordable provided investors with no involvement in the selection, renovation or sale of the properties that NJ Affordable promised to purchase with the money they invested.

27. Similar to the Asset Protection Guarantee program, NJ Affordable provided investors who signed so-called Joint Venture Agreements with agreements containing a guarantee, but no promise of mortgage collateral. NJ Affordable promised investors who signed Joint Venture Agreements interest rates of between 16 and 20%. NJ Affordable represented to the investors that the rates of return were guaranteed by NJ Affordable "and any company owned 100% by Wayne Puff." The Joint Venture Agreements provided to investors identified the purpose as "to designate real property to acquire, develop, renovate and sell the Property, and to maintain the Property until sold." While the terms of the Joint Venture Partnership agreements provided that the "parties would mutually select the property to be covered by the Joint Venture," responsibility for "all decisions regarding the property, including but not limited to renovation, development, leasing, operating, maintaining and sale of the Property" resided with NJ Affordable, based on "[NJ Affordable]'s experience with similar ventures."

B. NJ Affordable and Puff's Discipline by State Securities Regulators

28. In 2004, the Pennsylvania Securities Commission issued a cease and desist order barring NJ Affordable and Puff from acting on behalf of an issuer offering or selling any securities in Pennsylvania. In re New Jersey Affordable Homes Corp., No. 0006-15, 2004 Pa. Sec. LEXIS 89 (Pa. Sec. Comm'n May 28, 2004). The order, issued on consent, contained findings that NJ Affordable had failed to make material disclosures to investors in its offer and sale of promissory notes backed by mortgages, in willful

violation of Pennsylvania securities law. NJ Affordable and Puff accepted and consented to the issuance of the findings, without admitting or denying the allegations against them.

29. In 2002, a New Jersey state court judge approved a Consent Judgment resulting from an investigation by the NJ Bureau into NJ Affordable's offer and sale of its promissory notes backed by mortgages. The Consent Judgment ordered NJ Affordable and Puff to comply with New Jersey securities laws, and to offer rescission to all Mortgage Investors whose mortgages had been pooled with other investors' on a single property. Farmer v. N.J. Affordable Homes Corp., No. C-408-99, 2002 N.J. Sec. LEXIS 54 (N.J.B.O.S. Nov. 21, 2002).

30. In connection with NJ Affordable's rescission offer to investors under the NJ Bureau's Consent Judgment, Puff and Lagonia attempted to persuade investors to decline the offer and negotiated payment plans for others.

C. Contrary to the Offering Materials' Promise of a Safe and Secure Investment, the Securities Carried Enormous Risk

31. The offering materials' representations that NJ Affordable's notes provided a risk-free investment were false because (i) the collateral for the mortgages was significantly over-valued; (ii) investors were not over-collateralized; and (iii) at all relevant times, NJ Affordable had a negative net worth and was operating at a loss.

1. NJ Affordable's Business Was Not Sustainable Because the Assets Purportedly Securing the Notes Were Based on Inflated Appraisals

32. Contrary to the assurances provided in the NJ Affordable offering materials provided to investors, purchasers of the notes secured by mortgages did not have a 25% safety net between the amounts they invested and the value of the property on which they were issued a mortgage. Instead, based on the company's resale

experience, the value of their collateral was demonstrably below the amounts they invested, leaving them unsecured in the case of default.

33. NJ Affordable's assets consisted of the properties it bought to renovate and resell at a profit. NJ Affordable secured the notes issued to Mortgage Investors with mortgage liens on those properties -- mortgages it assigned based on valuations it obtained from a single appraiser. The appraisal obtained by NJ Affordable was routinely well in excess of the purchase price, generally based on a purported assessment of how much a property would be worth after renovation or construction. However, the appraisals were inaccurate; the resale prices NJ Affordable was able to realize on its properties historically fell far short of 100% of the appraised values it placed on them. Moreover, as the scheme progressed, increasing numbers of NJ Affordable's sales were not in arms-length transactions, but rather consisted of sales to NJ Affordable insiders, investors and nominees as part of a mortgage scheme Puff called the "50/50 Program" or "Your Credit/My Money," as described more fully below, and resulted in inflated resale values.

34. Moreover, the shortfall between the value of the property and the investor's interest was even greater than at first appears. Mortgage Investors' mortgages purported to collateralize only their principal investment, and did not account for the amount of interest that accrued to them, compounded on an annual basis. At the end of each Mortgage Investor's investment period, NJ Affordable owed the investor both principal and the accrued, compounded interest. Because NJ Affordable could not realize the values it assigned to its properties when it sold them, the Mortgage Investor's principal and interest were at risk.

35. Finally, with its failure to realize the inflated values assigned to its properties, NJ Affordable was also unable to fund the various costs it incurred to carry the properties on its books pending sale. While it held the property, NJ Affordable was incurring property taxes, insurance, overhead, construction costs and other expenses that all had to be recovered on the sale of the property. Because NJ Affordable could not sell the property for the appraised value, its inability to make up those expenses impaired to an even greater degree its ability to meet its obligations to its investors.

2. NJ Affordable's Sales "Revenues" Were Fictitious Because NJ Affordable Was Churning the Properties in Sales and Re-sales to and from Its Own Investors, Insiders and Nominees

36. NJ Affordable's inflated appraisals created a serious cash crunch at the company. To generate quick cash and record revenues and robust sales of NJ Affordable properties, Puff devised the mortgage fraud scheme he called the "Your Credit/My Money Program" or the "50/50 Program."

37. Under the 50/50 Program, NJ Affordable and Puff solicited insiders and existing investors as partners. The insiders and investors, as straw buyers, would purchase NJ Affordable properties at inflated prices using mortgages issued by traditional mortgage lenders. As the seller of the properties, NJ Affordable and Puff would receive the cash from the mortgage proceeds. By agreement with the straw buyers, NJ Affordable would retain control of the properties and would make the mortgage payments and assume the costs of the properties on the straw buyers' behalf. When the properties were sold again, NJ Affordable and Puff agreed to split the proceeds with the straw buyers.

38. The 50/50 Program created cash receipts for NJ Affordable, and allowed it to record sales of properties and revenues on the income statements that it prepared for submission to the NJ Bureau in 2003 and 2004 as part of its obligations under the NJ Bureau's Consent Judgment. In those financial statements, NJ Affordable did not include the new mortgage obligations it incurred pursuant to its agreements with the straw buyers, and, as a result, its balance sheet significantly under-valued its liabilities.

39. The real effect of the 50/50 Program was to saddle NJ Affordable with new, disguised liabilities that further exacerbated its cash flow problems. Because income from rents on the property rarely covered the monthly mortgage payment obligations, hundreds of thousands of dollars were flowing out of NJ Affordable each month to cover the 50/50 Program's expenses.

3. At All Relevant Times, NJ Affordable Had a Negative Net Worth and Suffered Continuous Operating Losses.

40. Contrary to the offering materials' claim that NJ Affordable was a successful real estate investment company which had never missed a payment to investors, NJ Affordable was insolvent.

41. At all relevant times, NJ Affordable's assets were insufficient to meet its obligations on the various notes it issued because it inflated the values it assigned to its assets, understated its liabilities, and its true liabilities greatly exceeded its assets.

42. Tax returns prepared for NJ Affordable for 2003 reflected a net annual loss of $6.8 million, and a Net Operating Loss Carry Forward of $19 million, reflecting a history of losses since 1995.

43. The Receiver's Report, filed with the Court on October 31, 2005, reported that an examination of NJ Affordable's books and records reflected that during the period

from January 1, 1999 through June 30, 2005, NJ Affordable and its affiliates did not have the ability to pay their obligations as they came due.

D. The Role of Ken Lagonia

44. Lagonia was hired by Puff in late 2003 as a consultant to NJ Affordable. According to Lagonia, his responsibilities were (i) to restructure the company and (ii) to prepare and market a $60 million bond offering to institutional investors.

45. As part of his restructuring responsibilities, Lagonia was in charge of the day-to-day operations of NJ Affordable, including addressing concerns raised by investors about the safety of their investments and NJ Affordable's frequent delays in making interest payments. In that role, he learned the following facts about NJ Affordable that Puff already knew:

- NJ Affordable's 50/50 program was costing the company hundreds of thousands of dollars a month and that it was draining cash;
- the IRS had levied against NJ Affordable's bank accounts for failure to pay back taxes;
- NJ Affordable's income tax return reported a net loss of $6.8 million for 2003 and a history of losses going back to 1995;
- NJ Affordable lacked financial controls, allowing Puff and other employees to treat the company's cash as their own;
- NJ Affordable's books and records were in disarray and audited financial statements could not be prepared;
- NJ Affordable's financial controls were weak, and Puff, in particular, used check cashing facilities to convert checks payable to NJ Affordable to cash for his own use;
- NJ Affordable's offering materials contained material misleading statements and omitted material facts; and

- No bond offering was likely because the company could not produce audited financials and because no institutional investors were interested.

46. Lagonia had frequent contact with existing and prospective investors. For example, in 2004, when Puff realized that NJ Affordable would be unable to fund the rescission payments that the NJ Bureau's Consent Judgment required, Lagonia spoke to investors to try to persuade them to decline the rescission offer. Ultimately, it was due to the efforts of Lagonia that one investor made a substantial new investment of over $2 million that Puff and NJ Affordable used to fund the rescission payments.

47. Throughout his tenure, Lagonia met with and spoke to prospective and current investors to address their concerns about NJ Affordable, as well as to solicit new investments from them. In those conversations, Lagonia omitted to tell investors the facts that he learned about NJ Affordable detailed above. He also distributed the false and misleading financial statements prepared for the NJ Bureau to prospective and current investors without telling any of them that the financial statements included the fictitious 50/50 Program sales, and significantly inflated NJ Affordable's revenues and understated its liabilities.

48. Lagonia also frequently told prospective and current investors about his efforts to market an offering of NJ Affordable debt securities to institutional investors. He continued to do so even after he learned that there was little interest in such an offering and that one might never be possible because NJ Affordable was unable to produce audited financial statements.

E. The Defendants Have Made Material Misrepresentations, and Omitted to Disclose Material Facts, to Investors

49. Through the conduct described above, and in the course of offering and selling notes, investment contracts and other evidence of indebtedness to investors, NJ Affordable and Puff knowingly, or recklessly, made the following material misrepresentations and false statements, both orally and in NJ Affordable's offering materials:

- The investments in the notes, investment contracts, and other evidences of indebtedness issued by NJ Affordable were safe, secure or guaranteed;
- Purchasers of notes secured by mortgages would be provided with a "safety net" of 25% or more between the value of the property and the mortgage;
- NJ Affordable paid investors all principal plus 15% or more accrued interest by renovating and reselling properties; and
- NJ Affordable never missed an interest payment to an investor.

50. In the course of offering and selling notes, investment contracts and other evidence of indebtedness to investors, NJ Affordable, Puff and Lagonia knowingly, or recklessly, made the following additional misrepresentations to investors:

- Between December 2004 and March 2005, Lagonia and Puff told one prospective investor (who later purchased NJ Affordable notes) that NJ Affordable was well over-collateralized and that it had a positive net worth; and
- In the first quarter of 2004, Lagonia met with another investor and showed him NJ Affordable financial statements that showed a healthy balance sheet. He also told this investor that he was working on a prospectus for a bond offering. Puff told this investor that he had brought Lagonia on to prepare and market the bond offering. This investor was persuaded by what he was told by Lagonia and Puff to invest additional money in NJ Affordable notes.

51. In the course of offering and selling notes, investment contracts and other evidence of indebtedness to investors, NJ Affordable, Puff and Lagonia knowingly or recklessly, omitted to disclose the following material facts:

- The notes, investment contracts and other evidence of indebtedness offered and sold by NJ Affordable carried risk;
- The purported collateral securing the notes, investment contracts and other evidence of indebtedness did not fully protect investors;
- The appraisal values that NJ Affordable reported were inflated and did not reflect NJ Affordable's historic inability to realize the values assigned when the properties were sold;
- NJ Affordable based the value of any mortgage collateral it granted to investors solely on investor principal, so that any amount of accrued and unpaid interest was unsecured;
- In order to repay prior investors principal and interest owed, NJ Affordable used new funds received from new or other investors;
- NJ Affordable routinely arranged fictitious sales of its properties to straw buyers in the 50/50 Program. By doing so, NJ Affordable inflated revenue on its income statement, inflated prices for its properties, created undisclosed liabilities to mortgage lenders, and exacerbated its already tight cash flow problems by incurring new monthly obligations to mortgage lenders. The 50/50 Program drained hundreds of thousands of dollars from NJ Affordable each month;
- NJ Affordable's liabilities exceeded its assets and NJ Affordable suffered annual losses, not net gains, as reflected on financial statements distributed to some investors;
- NJ Affordable was delinquent in payment of its federal income tax and, as a result, its bank accounts had been levied against by the IRS;
- NJ Affordable had a history of (a) missing payments to investors of interest and principal, (b) investor complaints, and (c) judgments against it;
- NJ Affordable and Puff, its President, had been sanctioned by two state securities regulatory agencies, and was barred from selling securities in the State of Pennsylvania;

- NJ Affordable's books and records were in disarray and no auditor could produce audited financial statements from them;
- NJ Affordable had poor financial controls; and
- During the nearly two years that Lagonia was employed by NJ Affordable, he abandoned the bond offering on several occasions because he could neither find interested institutional investors nor produce audited financial statements necessary to bring such an offering to market.

F. NJ Affordable Transferred Significant Amounts of Money to Company Insiders

52. Neither NJ Affordable, Puff nor Lagonia disclosed to investors that checks representing substantial sums received from investors and property purchasers were negotiated by Puff at cash checking facilities and converted into cash for Puff's personal use. Currency Transaction Reports filed by check cashing facilities during the period 2002-2004 demonstrate that Puff used check cashing facilities, rather than any of the various banks in which he and NJ Affordable had accounts, to convert hundreds of thousands of dollars in checks payable to NJ Affordable to cash. These instances include company checks drawn on a NJ Affordable account and made payable (in handwriting) to NJ Affordable, and checks from third parties, including investors, that were made payable to NJ Affordable.

53. Nor did NJ Affordable, Puff or Lagonia disclose that NJ Affordable transferred investor monies to Puff's wife and to a personal bank account held in the name of one of Puff's brothers during the 2004 through September 2005 period.

FIRST CLAIM FOR RELIEF

Violations of Sections 5(a) and 5(c) of the Securities Act

54. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 53.

55. The notes that the Defendants have offered and sold to the general public constitute securities as defined in the Securities Act and the Exchange Act.

56. The Defendants, directly or indirectly, singly or in concert, have made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, to offer and sell securities through the use or medium of a prospectus or otherwise when no registration statement has been filed or was in effect as to such securities and when no exemption from registration was available.

57. By reason of the foregoing, the Defendants have violated, are violating, and unless enjoined would again violate, Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

SECOND CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act

58. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs paragraphs 1 through 57.

59. The Defendants, directly or indirectly, singly or in concert, by use of the means or instruments of transportation or communication in interstate commerce, or of the mails, in the offer or sale of securities issued by NJ Affordable, knowingly or recklessly, have, (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities issued by NJ Affordable, including in offering and marketing material, notes, investment

contracts, other evidence of indebtedness, and other statements issued and made by the Defendants.

60. By reason of foregoing, the Defendants, singly or in concert, directly or indirectly, have violated, and unless enjoined will again violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

THIRD CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5

61. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 60.

62. The Defendants, directly or indirectly, singly or in concert, by use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of securities issued by NJ Affordable, knowingly or recklessly, have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities issued by NJ Affordable, including in marketing material, notes, investment contracts, other evidence of indebtedness, and other statements issued and made by the Defendants.

63. By reason of foregoing, the Defendants, singly or in concert, directly or indirectly, have violated, and unless enjoined will again violate, Section 10(b) of the

Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant the following relief:

I.

Continuation of all interim relief previously granted in this action, including, but not limited to, the Amended and Modified Preliminary Injunction Order, entered October 10, 2005; and the Order Continuing Injunctive Relief, entered December 6, 2005, until such time as a Final Judgment with respect to each Defendant shall have been entered.

II.

A Final Judgment permanently, restraining and enjoining NJ Affordable, Puff and Lagonia, their agents, servants, employees and attorneys and all persons in active concert or participation with them, who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Sections 5(a), 5(c) and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c) and 77q(a), Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5 thereunder.

III.

A Final Judgment ordering the Defendants to disgorge their ill-gotten gains, plus prejudgment interest, and such other and further amount as the Court may find appropriate.

IV.

A Final Judgment ordering each of the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

V.

Such other and further relief as this Court deems just and proper.

Dated: New York, New York
May 10, 2007

By: ______________________

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Appendix A

NJ Affordable Homes' Affiliates

- Entities listed by Puff on Asset Protection Guarantees as owned by Wayne D. Puff:

  Affordable Homes of New Jersey, Inc.
  Affordable Mortgage Banking Corp.
  B+L Real Estate Holdings Corp.
  Cayman Island Townhouse a/k/a Lacovia Townhouse/Condo
  FHP Program Corp.
  Jersey Homes Corp.
  Kid Time Childcare Care, Inc.
  Madison Arms Corp.
  Market Street Assoc., Inc.
  New Market Learning Center Inc.
  New York Affordable Homes Ownership, Inc.
  New York Affordable Homes Ownership Corp.
  Colorado Café
  Trinity Lane Learning Center Corp.

- Entities that have one or more of the following characteristics: (1) Puff was listed as an officer or director or registered agent of the entity on the New Jersey Secretary of State's website (https://accessnet.state.nj.us/GatewayWatchNameSearch.asp), or in other publicly available records; (2) the affiliated entity owns property that NJ Affordable provided as mortgage security to investors of notes issued by NJ Affordable investors; (3) the entity received investor money; (4) NJ Affordable representatives described the entity as a NJ Affordable affiliate or that it was owned, at least in part, by Puff; and (5) the entity maintained the same business address as NJ Affordable Homes.

  Purely Profit Plus LLC
  NJ Affordability Homes Corp.
  New York Affordable Project Management Corp.
  Speedy Realty, Inc.
  Discount Homes R Us, Inc.
  H&W Properties, Inc
  NJ Homes of New Jersey, Inc.
  Quality Homes Are Us, LLC
  United Funding Capital, Inc.

- Entities that have one or more of the following characteristics: (1) Puff was listed as an officer or director or registered agent of the entity on the New Jersey Secretary of State's website or in other publicly available records, or (2) the transactional records for properties relating to NJ Affordable notes show that the LLC entity engaged in sales or repurchases with a NJ Affordable buyer or seller who had entered into more than one prior home purchase or sale with a NJ Affordable affiliated entity.

309 Giles Avenue, LLC
178 Lyons Avenue, LLC
645 South 13th Street, LLC
892 South 20th Street, LLC
35 37 Schuyler Terrace, LLC
457 Park Avenue, LLC
221 North 6th Street, LLC
136 South Munn Avenue, LLC
375 Leslie Street, LLC
128 McWhorter Street, LLC
47 Irving Street, LLC
227 New Street, LLC
183 Paine Avenue, LLC
38 Coit Street, LLC
396 South 14th Avenue, LLC
10 14 Noll Place, LLC
104 106 Shanley Street, LLC
326 328 Amherst Street, LLC
107-109 Sunset Street, LLC
142-144 Goodwin Avenue, LLC
1211 Lincoln Street, LLC
1009 ½ Oak Street, LLC
1010 Oak Street, LLC
21 New Street, LLC
362 Market Street, LLC
132 Randolph Street, LLC
51-53 University Place, LLC
51 5th Associates, LLC
38 Cedar Avenue, LLC
210 212 Madison Avenue, LLC
42 22nd Street, LLC
1204 Lincoln Street, LLC
365 Drum Point, LLC
182 West Bigalow Street, LLC
667 West Grand, LLC
131 Mapes, LLC
117 Milton Street, LLC
64 North 13th Street, LLC

534 Livington Street, LLC
DHR-Sudzin, LLC
284-186 South 8th Street, LLC
93-95 Hillside Avenue, LLC
218-220 Monroe Avenue, LLC
12 Roosevelt Avenue, LLC
220 Morris Street LLC
DHR LEREA LLC
DHR Haberman LLC
DHR Cardinale LLC
DHR Jeffrey Neuman LLC
DHR Gail Neuman LLC
DHR Barenholtz LLC
DHR Calderone LLC
DHR Cohen LLC
DHR Grecco LLC
DHR Corrente LLC
DHR Bauerle LLC
DHR Parhan LLC
DHR Schrader and Rowan LLC
DHR-Rosin LLC