

UNITED STATES DISTRICT COURT  
DISTRICT OF COLUMBIA

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SECURITIES AND EXCHANGE COMMISSION, :

Plaintiff, :

v. :

Civil Action No. \_\_\_\_\_

FIRST UNITED FINANCIAL GROUP, LLC, :  
ROBERT L. HALL, JR. and CARLETUS :  
WILLIS, :

**COMPLAINT**

Defendants. :

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Plaintiff Securities and Exchange Commission alleges:

**Introduction**

1. This case involves the fraudulent and unregistered offerings and sales of securities in a “Ponzi scheme” perpetuated by First United Financial Group, LLC (“First United”), acting through its principal officers, Robert L. Hall, Jr. and Carletus Willis.

2. From at least June 2001 until August 2003, First United, Hall, and Willis offered and sold securities titled “Asset Placement Agreements” in unregistered transactions to over 150 investors in 18 states and raised more than \$1.38 million. Approximately 50 of these investors live in the greater Washington, D.C. area

3. In connection with these offers and sales of Asset Placement Agreements, First United, Hall, and Willis made misrepresentations and omissions of material fact to investors concerning, among other things, the use of investor funds, the expected returns, and the investment risks.

4. The Asset Placement Agreements offered fixed rates of return as high as 15% per month or 180% per year. By defrauding other victims, defendants were able to deliver the promised rates of return to a handful of First United investors. Virtually none of the First United investors received their entire principal investment back.

### **Jurisdiction**

5. The Commission brings this action pursuant to Section 20(b) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77t(b)] and Section 21(d) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78(u)(d)].

6. The Court has jurisdiction over this action 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].

7. Defendants made 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 transactions, acts, practices and courses of business alleged herein.

8. Defendants will, unless restrained and enjoined, continue to engage in the acts, practices and courses of business alleged herein, or in transactions, acts, practices and courses of business of similar purport and object.

### **Parties**

9. First United Financial Group is a limited liability corporation that was incorporated in the District of Columbia on March 23, 2001. First United’s principal place of business was in

the District of Columbia. In promotional materials sent to investors, First United purported to be a “multi-million dollar DC based [financial services] consulting firm.”

10. Robert L. Hall, Jr., age 32, a District of Columbia resident, is founder, president, and Chief Executive Officer of First United. Hall is the Chairman of the Advisory Neighborhood Commission for Ward 6C in the District of Columbia, an elected governmental position.

11. Carletus Willis, age 30, a District of Columbia resident, was Chief Operating Officer of First United from May 2001 to November 2002 (when he left the firm).

### **Facts**

#### **Overview of the Investment Scheme**

12. On behalf of First United, Hall and Willis solicited investments in what they falsely represented to be no-risk, fixed-rate, high-yield, short-term investment opportunities.

13. In promotional materials, Hall and Willis falsely touted First United as a “financial services powerhouse” and purported to offer a wide range of services to clients, including, but not limited to, financial planning, asset management, and investment consulting services. First United promotional materials also stated that the organization’s mission was “to assist clients for whom professional wealth building consultation was previously unaffordable.” Hall touted himself as the “Minister of Finance” and purported to offer “biblically-based financial instruction.”

14. From June 2001 to August 2003, First United illegally solicited at least \$1.38 million from more than 150 investors in eighteen states and the Caribbean. The principal targets of the scheme appear to be African-American investors who had little or no investment experience. Hall and Willis persuaded them to invest by promising extravagant rates of return and by assuring investors their funds were not at risk. In addition, they described First United’s investment programs

as a way to help the less fortunate, by financing creative low-income housing solutions for the working class in Washington, D.C.

15. First United used several media to promote its investment programs, including a website, promotional mailings, seminars, “cold calls,” newspaper advertisements, and commissioned sales agents. First United maintained a website and mailed out promotional materials to existing and prospective investors around the country. Hall and Willis held individual and group meetings with potential investors at hotels, conference centers, and churches. First United also used “independent agents” to solicit investments. These agents were investors who were supposed to receive commissions for introducing potential investors to Hall and Willis. The amount of commission to which they were entitled was based upon a percentage of the assets that were invested by the new investors. Many investors were not advised that their agent would be compensated in this manner.

16. First United required a minimum investment of \$2,500 and instructed investors to send a wire or certified check to First United’s bank account. First United also required investors to pay an administrative fee equal to 5% of the assets invested. Investor funds were not segregated in any way, but were pooled into one bank account held in First United’s name.

17. Each individual investor signed an “Asset Placement Agreement,” also signed by Hall, which memorialized the investment term, amount invested, and promised rate of return. The agreements describe the proceeds from the agreements as capital gains payments. Each agreement stated that First United would invest the pooled funds “into various business transactions, including, but not limited to, real property that is located in the Washington DC Metropolitan area.”

18. First United issued false and misleading account statements and made periodic payments of “capital gains” to some investors on their First United investments. However, the payments did not come from profits derived from any First United business transactions or investments. Instead, the payments came from other investor funds received by First United.

### **Fraudulent Misrepresentations And Omissions**

19. As CEO and COO respectively, Hall and Willis were involved in every aspect of First United’s operations. They personally solicited investments from investors. In doing so, Hall and Willis knowingly or recklessly made several misrepresentations and omissions of material fact.

20. In promotional mailings, investment seminars and personal solicitations, Hall and Willis made baseless representations that First United investors would receive above-market rates of return. The promised rates of return were not consistent from one investor to another, but were uniformly and unrealistically high. In some cases, Asset Placement Agreements promised “capital gains” as high as 15% per month or 180% per year.

21. In investment seminars and personal solicitations, Hall and Willis told investors that these capital gains would be derived from profits on investments that First United made. However, they knew or were reckless in not knowing that First United had never been profitable and that First United had no investments from which to generate returns of any kind.

22. Hall and Willis orally assured investors that their investments were risk-free. In a welcome letter, they informed some investors that First United’s past performance had generated consistent triple digit returns and that no investor had lost money. They orally told other

investors that their principal was secure. Hall and Willis knew or were reckless in not knowing that each of these representations was false.

23. In investment seminars, personal solicitations, promotional mailings and general correspondence, Hall and Willis misrepresented and failed to disclose the true financial condition of First United. Each Asset Placement Agreement stated that investor's funds were available at the end of the stated investment term or before that time subject to forfeiture of all capital gain payments and 30% of the principal invested. Contrary to these representations and despite numerous requests, First United investors have been unable to liquidate their investments or obtain distributions as promised. Hall and Willis knew or were reckless in not knowing that all of these representations were false.

24. Despite the fact that Hall and Willis knew or were reckless in not knowing First United's precarious financial position, they failed to disclose these financial problems to existing or prospective investors and misled many investors into believing that the organization was successful. In early 2001, First United had problems paying its employees. Beginning in 2002, First United began issuing checks that were returned for insufficient funds. By mid-2002, First United was unable to pay its bills, collection agencies began calling, and investors complained about not receiving the promised payments. Hall and Willis were aware of First United's substantial obligations because they regularly received and reviewed reports that outlined the investment term, amount invested, and promised rates of return for each investor, and they had access to First United's bank account and made deposits. From January 2002 to August 2003, First United issued over 200 checks with insufficient funds in its bank account.

25. In investment seminars, personal solicitations, promotional mailings and general correspondence, Hall and Willis falsely told investors that their funds would be used by First United to make real estate investments. First United mailed potential investors detailed offering prospectuses outlining proposed real estate ventures and other promotional materials that included a number of material misrepresentations and omissions.

26. First United's principal securities offering was called the Trinidad Project, which purportedly involved residential real estate redevelopment in the Trinidad neighborhood of Washington, D.C. The offering prospectus stated:

The Trinidad Project is a Condominium Realty Solution System. It is specifically designed to allow residents of abject areas, who would normally be displaced by the market pressures of gentrification, to function as its catalyst while benefiting from the process. By assembling and representing a \$21 million Investment Buyer Pool (IBP), our firm acts as the facilitator of a community friendly real estate development system which provides affordable housing for low to moderate income earners. By use of a creative mortgage structuring methodology (that leverages government tax incentives, seller's equity, mortgage notes, and first time homebuyer programs), we form the IBP, acquire units, redevelop the units under the auspices of United Construction, LLC and deliver the units to members of the IBP.

Notwithstanding these representations, First United never acquired, redeveloped, or sold any units in the Trinidad neighborhood of Washington, D.C., nor did First United ever make any real estate investments anywhere else. Hall and Willis knew or were reckless in not knowing that the foregoing representations were false.

27. To the extent First United ever intended to invest in the Trinidad neighborhood of Washington, D.C., all organizational efforts were abandoned by late August 2002. Nevertheless, First United, Hall and Willis continued to solicit investments for the project.

### **Misuse Of Investor Funds**

28. Hall and Willis dissipated all investor funds, totaling more than \$1.38 million, through payments to investors, operating expenses, and personal use.

29. To perpetuate the Ponzi scheme, First United made payments totaling at least \$883,926 in purported profits, interest payments and fees to its investors. These payments did not actually constitute profits or interest, but rather came from investments made by subsequent investors. However, First United, Hall and Willis never disclosed that fact.

30. First United spent at least \$353,030 on operational expenses, such as advertising, rent, utilities, payroll, commissions, insurance, and other expenses incurred in the normal course of running a business. This figure includes expenses incurred by United Construction, an unprofitable subsidiary of First United. First United, Hall and Willis did not inform a number of investors that their funds would be used to pay the operating expenses of First United and its subsidiaries.

31. Hall and/or Willis made cash withdrawals and paid personal expenses from First United's bank accounts of at least \$233,748. Of this sum, Hall and/or Willis made cash withdrawals of more than \$199,599. In addition, First United paid more than \$34,149 for housing, car payments, transportation, childcare, charitable donations, and other personal expenses incurred by Hall. First United, Hall and Willis did not disclose these payments and withdrawals to First United investors and potential investors.

### **Lulling Of Investors**

32. To perpetuate the Ponzi scheme, First United, Hall and Willis adopted a number of strategies to discourage withdrawals and to lull First United investors into believing that their



investments were safe and secure. Initially, First United offered investors higher rates of returns if they were willing to invest larger sums of money or over longer periods of time. The Asset Placement Agreements also imposed a substantial penalty if investors withdrew their funds before the end of the investment term.

33. At the end of each investment term, First United, Hall and Willis prepared and sent out false and misleading account statements which reported the principal invested, capital gain due, and available balance. These statements uniformly indicated that each investor's principal was secure and that they had earned a significant capital gain.

34. First United was never profitable and the purported capital gains could be paid only through use of other investors' funds. First United, Hall and Willis never disclosed this material fact to investors. Instead, they encouraged investors to reinvest their principal and purported capital gains with First United, thereby extending the life of the scheme.

35. For those investors who chose not to reinvest their principal and purported capital gains, Hall and Willis made numerous false excuses, both orally and in correspondence, when delaying and refusing to return the investors' funds, including, but not limited to, suggesting errors by First United's bank, promising to make the agreed payments upon the future sale of properties, and claiming that investor funds had been stolen.

36. In some cases, after delays, Hall and Willis would temporarily satisfy investors by sending checks representing partial payment of their principal and purported capital gains. However, many of these checks were returned for insufficient funds.

**First Claim -- Violations of  
Securities Act Sections 5(a) and 5(c)**

37. Paragraphs 1 through 36 are incorporated by reference.

38. Investments offered by First United Financial Group constitute securities within the meaning of Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act.

39. From at least June 2001 through August 2003, the defendants directly or indirectly made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer and sell such securities through the use or medium of a prospectus or otherwise when no registration statement had been filed or was in effect as to such securities and when no exemption from registration was available.

40. By reason of the foregoing, the defendants have violated Sections 5(a) and (c) of the Securities Act [15 U.S.C. § 77e (a), (c)].

**Second Claim -- Violation  
Of Securities Act Section 17(a)**

41. Paragraphs 1 through 40 are incorporated by reference.

42. As a consequence of the foregoing, the defendants, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce, or by the use of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; or (b) obtained money or property by means of untrue statements of material facts or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

43. In connection with the above described acts or omissions, the defendants acted knowingly, recklessly, or negligently.

44. By reason of the foregoing, the defendants have violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] by offering and selling securities based on false and misleading statements and omissions of material facts.

**Third Claim -- Violations of  
Exchange Act Section 10(b) and Rule 10b-5**

45. Paragraphs 1 through 44 are incorporated by reference.

46. The defendants, directly or indirectly, by use of the means or instruments of interstate commerce, or of the mails, or of a facility of a national securities exchange, knowingly or recklessly (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, transactions, practices, and courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities and upon other persons, in connection with the purchase or sale of a security.

47. In connection with the above described acts and omissions, the defendants acted knowingly or recklessly.

48. By reason of the foregoing, the defendants have violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5] by selling securities based on false and misleading statements and omissions of material facts.

**Prayer for Relief**

WHEREFORE, the Commission respectfully requests a judgment:

(A) permanently enjoining the defendants from violating Securities Act Sections 5(a), 5(c), and 17(a), Exchange Act Section 10(b), and Rule 10b-5;

(B) compelling the defendants to (i) disgorge all ill-gotten gains, together with prejudgment interest; and (ii) pay civil penalties in an amount to be determined by the Court;

(C) permanently enjoining Robert L. Hall, Jr. from participating in any sale of or offer to sell any security in an unregistered transaction while acting in association with an issuer, underwriter, broker, or dealer involved in such transaction;

(D) granting such other relief as the Court deems just and proper.

Dated: September 15, 2004

Respectfully submitted,

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Lawrence A. West (Bar No. 438103)  
Kenneth R. Lench (Bar No. 424878)  
Jordan A. Thomas (Bar No. 452886)  
William H. Kuehnle (Bar No. 7401)  
Douglas C. McAllister (Bar No. 401370)

SECURITIES AND EXCHANGE COMMISSION  
450 Fifth Street, N.W.  
Washington, DC 20549  
Tel.: (202) 942-4517 (Thomas)  
Fax.: (202) 942-9581 (Thomas)  
Attorneys for Plaintiff