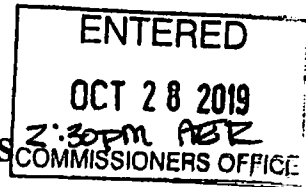


COMMONWEALTH OF KENTUCKY  
PUBLIC PROTECTION CABINET  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
AGENCY CASE NO. 2019-AH-00047



DEPARTMENT OF FINANCIAL INSTITUTIONS

COMPLAINANT

vs.

**AGREED ORDER**

CENTRAL FINANCIAL SERVICES, INC. and  
JACK CHOATE

RESPONDENTS

**FACTUAL BACKGROUND**

1. The Kentucky Department of Financial Institutions (“DFI”) is responsible for administering the provisions of Kentucky Revised Statutes (“KRS”) Chapter 292, the Securities Act of Kentucky (the “Act”), as well as the rules and regulations enacted thereunder.

2. Respondent Central Financial Services, Inc. (“CFS”) is a consumer lending company that formerly maintained an office location at 234 Court Square, P.O. Box 1599, Barbourville, KY 40906.

3. Respondent Jack Choate (“Choate” or collectively with CFS “Respondents”), a resident of Farmersville, TX, is the owner and managing member of CFS. His address is P.O. Box 56, Farmersville, TX 75442.

4. On February 15, 2019, DFI received a complaint from Kentucky investors (“P.S.”) and (“G.S.”) alleging that Choate offered and sold them a promissory note issued by CFS in 2008. In particular, they claim to have made an initial collective investment of one hundred and fifty thousand dollars (\$150,000) in a 5-year promissory note.

5. Upon maturity of the note in 2013, P.S. and G.S. entered into a second 5-year promissory note with Choate and CFS.

6. Under the terms of both notes, the investors were to receive a return of the unpaid principal balance at maturity. According to P.S. and G.S., the Respondents failed to satisfy this obligation.

7. In addition, while the terms of the promissory notes indicated P.S. and G.S. would be paid after all other debts owed by CFS, DFI determined the terms failed to fully disclose the financial position of CFS and the risks associated with default.

8. According to DFI records, neither Choate nor CFS registered the subordinated promissory notes or filed exemptions from registration.

### **STATUTORY AUTHORITY**

9. KRS 292.310(19) states, in pertinent part, that “[s]ecurity” means “any note, stock, treasury stock, bond, debenture, evidence of indebtedness...”

10. Under KRS 292.340, “[i]t is unlawful for any person to offer or sell any security in this state, unless the security is registered under this chapter, or the security or transaction is exempt under this chapter, or the security is a covered security.”

11. KRS 292.320(1) makes it “unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly: (a) To employ any device, scheme, or artifice to defraud; (b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.”

12. The Commissioner possesses a range of administrative authority in addressing violations of the Act, including the imposition of civil fines up to twenty thousand dollars (\$20,000.00) for each violation of the Act. *See* KRS 292.337; KRS 292.500(14).

### **CONCLUSIONS OF LAW**

13. The Respondents violated KRS 292.340 by failing to register the subordinated promissory notes with DFI.

14. The Respondents violated KRS 292.320(1) by failing to provide investors with sufficient written disclosures regarding the risks of the investments.

### **AGREEMENT AND ORDER**

15. To resolve this matter without litigation or other adversary proceedings, DFI and Respondents agree to compromise and settle all claims arising from the above-referenced factual background in accordance with the terms set forth herein.

16. In the interest of economically and efficiently resolving the violations described herein, DFI and Respondents hereby agree as follows:

- a. Respondents neither admit nor deny the statements of fact, or the conclusions of law, set forth herein;
- b. Respondents shall cease and desist from any further violations of the Act;
- c. Respondents shall pay a civil fine in the amount of one thousand dollars (\$1,000) for the violation described herein, which shall be due and payable upon the entry of this Agreed Order;
- d. All payments of civil fines under this Order shall be in the form of a **certified check or money order** made payable to “Kentucky State Treasurer” and mailed to the Department of Financial Institutions, Securities Division, 2019-AH-00047, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601; Respondents shall pay restitution, in the total collective amount of \$8,086.19, to the affected investors, P.S. and G.S., which constitutes the investors’

principal investments reduced by the documented payments made by Respondents as of June 2018. Evidence of this payment must be submitted to DFI on or before October 18, 2019.

17. Respondents waive their right to demand a hearing at which they would be entitled to legal representation, to confront and cross-examine witnesses, and to present evidence on their own behalf, or to otherwise appeal or set aside this Agreed Order.

18. Respondents consent to and acknowledge the jurisdiction of DFI over this matter and that this Agreed Order is a matter of public record and may be disseminated as such.

19. In consideration of execution of this Agreed Order, Respondents for themselves, and for their successors and assigns, hereby releases and forever discharges the Commonwealth of Kentucky, DFI, Office of Legal Services, and each of their members, agents, and employees in their individual capacities, from any and all manner of actions, causes of action, suits, debts, judgments, executions, claims and demands whatsoever, known and unknown, in law or equity, that Respondents ever had, now have, may have or claim to have against any or all of the persons or entities named in this paragraph arising out of or by reason of this investigation, this disciplinary action, this settlement or its administration.

20. By signing below, the parties acknowledge they have read the foregoing Agreed Order, know and fully understand its contents, and that they are authorized to enter into and execute this Agreed Order and legally bind their respective parties.

21. This Agreed Order shall constitute the Final Order in this matter.

**IT IS SO ORDERED** on this the 22<sup>nd</sup> day of October, 2019.

Charles R. Gibson, Deputy Commissioner  
CHARLES A. VICE, COMMISSIONER  
for Charles  
A. Vice



**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Agreed Order was sent by certified United States mail, return receipt requested, on this the 28 day of October, 2019, to the following:

Mr. Jack Choate, President  
Central Financial Services, Inc.  
P.O. Box 56  
Farmersville, TX 75442  
*Respondent*

Hon. Cindy Baker  
5755 County Road 662  
Farmersville, TX 75442  
*Counsel for Respondent*

By hand delivery to:

Hon. Christine Foster  
1025 Capital Center Drive, Suite 200  
Frankfort, KY 40601  
*Counsel for Department of Financial Institutions*

Allison Reid  
KY Department of Financial Institutions  
Name: Allison Reid  
Title: Executive Staff Advisor