

ADMINISTRATIVE PROCEEDING
BEFORE THE
MARYLAND SECURITIES COMMISSIONER

IN THE MATTER OF:

KH FUNDING COMPANY,
and

ROBERT L. HARRIS, individually and
in his capacities with the issuer,

Respondents.

FILE NO. 2007-0377

* * * * *

CONSENT ORDER

WHEREAS, KH Funding Company (“KH Funding”), a Maryland corporation, offered and sold securities in and from Maryland in the form of notes; and

WHEREAS, Robert L. Harris (“Harris”) was president, director, CEO and promoter of KH Funding, the issuer agent during the period relevant to the facts relating to this Consent Order; and

WHEREAS, the Maryland Division of Securities (the "Division"), pursuant to the authority granted by section 11-701 of the Maryland Securities Act, Title 11, Md. Code Ann., Corps. & Ass’ns (1999 Repl. Vol. and 2007 Cum. Supp.) ("Act"), undertook an investigation with regard to possible violations of the Act by KH Funding and Harris (“Respondents”) in connection with the offer and sale in and from Maryland of KH Funding notes; and

WHEREAS, based on the information presented by the Division, the Maryland Securities Commissioner (the “Commissioner”) has concluded that Respondents engaged in acts or practices constituting violations of the Act and the regulations promulgated under the Act; and

WHEREAS, the Commissioner has agreed to issue this Consent Order whereby Respondents consent to the Findings of Fact and Conclusions of Law, and consent to the imposition of the sanctions imposed and the other terms of this Consent Order; and

WHEREAS, in settlement of any proceeding that could be brought based upon Respondents’ violations of the Act, the Commissioner has determined that it is in the public interest to accept this Consent Order.

NOW THEREFORE, without the holding of a hearing in this matter, and upon consent of the parties hereto,

IT IS HEREBY AGREED AND ORDERED:

I. JURISDICTION

1. The Commissioner has jurisdiction in this proceeding and over Respondents pursuant to section 11-701.1 of the Act.
2. Respondents voluntarily waive any right to a hearing and appeal under the Act and the rules and regulations promulgated thereunder with respect to this Consent Order.
3. In the event that judicial intervention in this matter is sought by any party, Respondents consent to the jurisdiction of the Circuit Court for Baltimore City over any such proceeding and as to itself.

II. PARTIES

4. Melanie Senter Lubin is the Securities Commissioner for the State of Maryland.
5. Respondent KH Funding, is a Maryland corporation with a principal office located at 10801 Lockwood Drive, Suite 370, Silver Spring, Maryland 20901.
6. Respondent Harris resides at 810 Ashton Road, Ashton, Maryland 20901.

III. FINDINGS OF FACT

The Commissioner finds the following facts.

7. KH Funding, through it agent, Harris, solicited investors to purchase the notes of KH Funding during May to November, 2006 (the "Offering"). KH Funding promoted itself as a mortgage services company.
8. The records of the Division reflect that KH Funding submitted an application of the Offering on June 28, 2006 under section 11-503 of the Act (Maryland File No. SR20060032).
9. The Prospectus distributed by Respondents offered an aggregate amount of \$220,000,000 Series 3 Senior Secured Notes and \$30,000,000 Series 4 Subordinated Unsecured Notes.
10. Despite the fact that the Offering is not cleared in Maryland, Respondents offered and sold KH Funding notes to at least 62 investors.

11. In making offers of the notes to potential investors, Respondents violated the Act by selling securities before the securities were registered to be sold in Maryland.

12. Respondent KH Funding has offered rescission to 22 investors and paid restitution to 43 investors.

IV. CONCLUSIONS OF LAW

The Commissioner concludes that:

13. The notes of KH Funding offered and sold by Respondents constitute "securities" within the definition at section 11-101(r) of the Act.

14. Respondents sold securities prior to its application for registration being declared effective in violation of section 11-503 of the Act and Regulations .01 through .08 of COMAR 02.02.03.

V. CONSENT TO SANCTIONS

Respondents each expressly agrees and consents, and it is ordered that:

15. Respondents have conducted an offering in the nature of a rescission to certain investors in the Offering, and have provided restitution to other investors in the Offering. The results of the "rescission offering" and the restitution are as follows:

43 investors in KH Funding have received restitution in the aggregate amount (principal and interest) of \$464,511.07;

22 rescission offerees have rejected the rescission offer and elected not to rescind investments in the KH Funding notes (Maryland File No. EX20070549);

16. Respondents agree in future offerings to comply with the provisions of the Act and the regulations promulgated under the Act.

17. Up until January 1, 2012, or any period during which Respondent KH Funding has a pending or effective registration statement on file with the Division, the Respondent KH Funding agrees to submit to the Division copies of periodic reports and certifications of the CEO that are required to be filed with the SEC.

18. Respondents admit the jurisdiction of the Division as to the party and subject matter and hereby consent to the substance and entry of this Consent Order.

VI. CONSEQUENCES OF VIOLATION OF CONSENT ORDER

19. If a Respondents fails to comply with any term of this Consent Order, the Commissioner may declare this Consent Order to be null and void as to that Respondent. The Commissioner may then proceed with full administrative and/or judicial proceedings to enforce this Consent Order and to collect the civil penalty imposed above, or to impose sanctions for violating an order of the Commissioner, and may take any other action authorized under the Act or any other applicable law. In any such proceeding, the facts and the violations of the Act set forth and incorporated in this Consent Order shall be deemed admitted and may be introduced into evidence against such Respondent.

VII. MODIFICATION OF TERMS OF THIS CONSENT ORDER

20. The terms of this Consent Order may only be modified by a subsequent order issued by the Commissioner.

VIII. JURISDICTION RETAINED

21. Jurisdiction shall be retained by the Commissioner for the purpose of enabling any party to this Consent Order to apply for such further orders and directions as may be necessary or appropriate for the construction or enforcement of this Consent Order.

The provisions of this Consent Order shall become binding when this Consent Order has been executed by each party and is issued by the Commissioner.

DATE OF THIS ORDER:

SO ORDERED:

Signature on file with original document

December 19, 2007

/S/

Melanie Senter Lubin
Securities Commissioner