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REGISTRATION & DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant

vs.

ROSE P. MORANDINI
Limited Registered Representative
(CRD No. 1450305)

Respondent

**Disciplinary Proceeding
No. 2006005483401**

Hearing Officer Sara Nelson Bloom

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: July 24, 2008

INTRODUCTION

Disciplinary Proceeding No. 2006005483401 was filed on May 5, 2008, by the Department of Enforcement of FINRA (Complainant). Respondent Rose P. Morandini submitted an Offer of Settlement (Offer) to Complainant on June 16, 2008. Pursuant to NASD Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to NASD Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Morandini has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of

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findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Morandini's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Rose P. Morandini entered the securities industry on July 1, 1986 as an Investment Company and Variable Contracts Products Representative of PFS Investments Inc. (Member), a member of FINRA (f/k/a NASD). She was registered with the Member in such capacity until May 10, 2006. She is currently not registered with any member of FINRA, and has no history of disciplinary actions.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

1. On or about December 3, 2004, DC, an Investment Company and Variable Contracts Products Principal registered with the Member, met with Morandini "to conduct a leadership visit," on behalf of Morandini's supervisor. During the visit, Morandini asked DC if he had a mortgage in his home. When DC said that he did, Morandini asked him if he would like to have the mortgage paid off. DC responded that if his mortgage was paid off, it would take a huge burden off of his and his wife's finances. Morandini then explained that her husband, RV, represented an organization known as "Redwood Trust," which was a charitable trust dedicated to helping families pay off their mortgages and other forms of consumer debt. She explained that the funds used to pay off these debts were provided through grants from government agencies, philanthropists and other sources. Morandini explained that another round of funding was due in the near future. During this conversation, Morandini told DC that she and her husband had their

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own mortgage paid off through their investment in Redwood Trust.

2. On or about December 22, 2004, DC and PC met with RV and Morandini at Morandini's home, to invest in a Letter of Understanding (LOU), which was issued by Redwood Trust. DC and PC purchased two LOUs with Redwood Trust, the first to pay off their first mortgage and the second to pay off a home equity line of credit. DC and PC submitted a \$3,000 cashiers check for the first LOU and a \$2,000 cashiers check for the second LOU.

3. In deciding to invest in Redwood Trust, DC and PC relied on Morandini's representations that she and her husband had invested in Redwood Trust, and that their mortgage had been paid off as a result of their investment. In fact, however, Redwood Trust did not pay off Morandini and her husband's mortgage.

4. In or about January 2005, DC and PC learned that the United States Attorney had brought a civil action against Redwood Trust and seized all of its assets.¹

5. Shortly afterwards, in or about March 2005, Morandini admitted to DC that the mortgage on her and RV's home had not been paid off, and that she and RV had also lost the funds that they had invested with Redwood Trust.

6. Morandini's representation to DC and PC that her and her husband's mortgage had been paid off by Redwood Trust was an untrue statement of a material fact. Such statement, act, practice or course of business operated as a fraud or deceit upon DC and PC.

¹ In addition, on June 18, 2007, the Department of Consumer and Business Services of the State of Oregon issued a Final Order, which found that the sale of Letters of Understanding issued by Redwood Trust were investment contracts and thus securities. *In the Matter of Kenneth G. Titus, Sr. d/b/a Redwood Trust*, Department of Consumer and Business Services of the State of Oregon, OAH Case No. 120419, Agency Case No. C-3822 (Final Order, June 18, 2007).

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7. Morandini knew or must have known that this statement was not true, or she was severely reckless in making the misrepresentation to DC.

8. Morandini, by engaging in the conduct referenced in paragraphs 1 through 6 above, with scienter, directly or indirectly, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, or of the mails: 1) employed devices, schemes or artifices to defraud; 2) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or 3) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers or prospective purchasers and effected transactions in, or induced the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

9. In addition to soliciting DC and PC to invest in Redwood Trust through her husband, Morandini directed DC to Redwood Trust's website. She also instructed DC to contact RV if he wanted to participate in the program, and urged DC to act quickly as some of the requirements for the program would change in 2005. Morandini was present throughout the application process and assisted RV in handling the paperwork relating to DC's and PC's investment in Redwood Trust. Morandini informed DC and PC where to sign documents, made photocopies of the LOUs, and drove RV to a Federal Express location to send the LOUs and checks to Redwood Trust.

10. DC and PC invested in Redwood Trust and the LOUs in the presence of Morandini. DC and PC provided RV with a cashier's check for \$3,000 for the first LOU and another cashier's check in the amount of \$2,000 for their additional LOU. DC's and PC's total

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investment of \$5,000 in the two LOUs through Redwood Trust was completed on or about December 22, 2004.

11. The LOUs issued by the Redwood Trust were "securities," pursuant to the Exchange Act. Redwood Trust was a common enterprise, because the success of the consumers' investments was interwoven with and dependent upon the efforts and success of the Redwood Trust. In fact, because Redwood Trust was not successful, DC and PC lost their funds. Moreover, DC and PC expected a profit from the mortgage pay off program by having their mortgage and home equity line of credit paid off. The expected profits were to be made through the management and control of persons other than DC and PC, and they had no control over whether their home mortgage and home equity line of credit would be paid off once they invested their money.

12. Morandini engaged in private securities transactions, by participating in the sales of the LOUs through Redwood Trust to DC and PC, without providing prior written notice to and obtaining written approval from the Member, as required under NASD Rule 3040.

13. On or about August 18, 2006, the Staff sent Morandini a request that she give the Staff a written statement responding to the allegation that she participated in the sale of a security while failing to notify the Member in writing about her activities, as noted in paragraphs 9 through 12 above, pursuant to and in accordance with the provisions of NASD Rule 8210. The request for information was sent by first class mail and certified mail, return receipt requested, to Morandini's addresses of record as contained in the records of the Central Registration Depository (CRD Addresses). The CRD Addresses were [REDACTED] (21 Mile Road Address), and [REDACTED] (Van Dyke Address).

Both of the first class mailings were not returned to the Staff. The certified return receipt for the

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mailing to the 21 Mile Road Address was returned to the Staff, apparently signed by Morandini. The certified return receipt for the mailing to the Van Dyke Address was returned to the Staff signed by someone with the last name "Carl."

14. Having not received a response to the request for information and documents, on or about September 5, 2006, the Staff sent Morandini a request marked "second request" that she give the Staff a written statement responding to the allegation that she participated in the sale of a security while failing to notify the Member in writing about her activities, as noted in paragraphs 9 through 12 above, pursuant to and in accordance with the provisions of NASD Rule 8210. The request for information was sent by first class mail and certified mail, return receipt requested, to Morandini's CRD Addresses. The first class mailing to the 21 Mile Road Address was not returned by the post office, but was later mailed back to the Staff by Morandini, unopened. The first class mailing to the Van Dyke Address was returned to the Staff marked "Not Deliverable as Addressed - Unable to Forward." Both of the certified mailings were returned to the Staff marked "Unclaimed."

15. Having still not received a response to the request for information and documents, on or about September 18, 2006, the Staff sent Morandini a request marked "final request" that she give the Staff a written statement responding to the allegation that she participated in the sale of a security while failing to notify the Member in writing about her activities, as noted in paragraphs 9 through 12 above, pursuant to and in accordance with the provisions of NASD Rule 8210. The request for information was sent by first class mail and certified mail, return receipt requested, to Morandini's CRD Addresses. The first class mailing to the 21 Mile Road Address was not returned by the post office, but was mailed back to the Staff by Morandini, unopened. The first class mailing to the Van Dyke Address was returned to the Staff marked "Not

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Deliverable as Addressed – Unable to Forward.” According to the records of the Post Office, the certified mailing to Morandini’s 21 Mile Road Address was “Refused.” The certified mailing to the Van Dyke Address was returned to the Staff marked “Not Deliverable as Addressed.”

16. On or about September 26, 2007, the Staff received a letter from Morandini. In the letter, Morandini stated that she was never an employee of the Member, in that she was an independent contractor of the Member. Morandini also stated that she could not answer any of the Staff’s questions until she saw the actual papers regarding the matter. She denied that she ever sold away any securities, and that she was connected with Redwood Trust in any way. She also returned unopened first class mailings that were sent to the 21 Mile Road Address on September 5, and September 18, 2006.

17. Having determined that Morandini’s letter was received on September 26, 2007, and that she did not respond to the Staff’s questions, on or about September 28, 2007, the Staff sent Morandini a request marked “final request,” which acknowledged that the Staff received her letter, but stated that it was not responsive to the Staff’s requests. The Staff’s requests asked that Morandini give the Staff a written statement responding to the allegation that she participated in the sale of a security while failing to notify the Member in writing about her activities, as noted in paragraphs 9 through 12 above, pursuant to and in accordance with the provisions of NASD Rule 8210. The request for information was sent by first class mail and certified mail, return receipt requested, to Morandini’s CRD Addresses. The first class mailing to the 21 Mile Road Address was not returned by the post office. The first class mailing to the Van Dyke Address was returned to the Staff marked “Not Deliverable as Addressed – Unable to Forward.” The certified mailing to Morandini’s 21 Mile Road Address was returned, marked “Refused.” The certified mailing to the Van Dyke Address was returned to the Staff marked “Not Deliverable as

Addressed – Unable to Forward.”

18. On or about October 16, 2006, the Staff received another letter from Morandini, in response to the letters requesting information and documentation. In this letter, Morandini responded to some of the staff's requests for information, but failed to provide any response to the question of whether she referred any other customer or employee of the Member to her husband for the purchase of any product through Redwood Trust. In addition, Morandini did not provide copies of her federal tax returns and accompanying forms for the years 2003, 2004 and 2005.

19. On or about January 4, 2007, having failed to receive a complete response from Morandini, the Staff sent Morandini an additional request marked “final request,” which acknowledged that the Staff received her two letters, but stated that it was not responsive to all of the Staff's requests. Specifically, the Staff again requested that Morandini give the Staff: a written statement stating whether she referred any other customer or employee of the Member to purchase any product through Redwood Trust; and a copy of her federal tax returns, with accompanying IRS forms, such as W-2s or 1099s, for the years 2003, 2004 and 2005, pursuant to and in accordance with the provisions of NASD Rule 8210. The request for information was sent by first class mail and certified mail, return receipt requested, to Morandini's CRD Addresses. The first class mailing to the 21 Mile Road Address was not returned by the post office. The first class mailing to the Van Dyke Address was returned to the Staff marked “Not Deliverable as Addressed – Unable to Forward.” The certified mailing to Morandini's 21 Mile Road Address was returned marked “Refused.” The certified mailing to the Van Dyke Address was returned to the Staff marked “Not Deliverable as Addressed – Unable to Forward.”

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20. Morandini failed to provide a complete response to all of the requests for documents and information described in paragraphs 13, 14, 15, 17 and 19 above, and the time for Morandini to respond has passed.

21. In or about January 2006, the Member learned for the first time that Morandini had referred DC and PC to her husband to purchase an investment offered by Redwood Trust. SS, a Compliance Advisor employed by Primerica Financial Services (Primerica), was assigned to further investigate Morandini's activities.

22. In early January 2006, SS called Morandini. During this telephone conversation, Morandini admitted to SS that she informed DC about the investments offered by Redwood Trust that her husband was selling, and that she was present when DC and PC met with her husband and purchased an investment offered by Redwood Trust.

23. During this conversation, Morandini also admitted to SS that she was present when other individuals had purchased an investment offered by Redwood Trust, and that a few of these individuals were also clients of Primerica.

23. SS asked Morandini to identify the names of the other individuals who purchased investments offered by Redwood Trust through her husband. SS told Morandini that if she did not provide him with the names of these other individuals, she would be disciplined by the Member and Primerica, and her agent agreements with Primerica companies could be terminated.

24. Despite SS's warning, Morandini refused to respond to SS's question, claiming that the information was her husband's business. When SS pressed Morandini for the names of the other purchasers and explained why he needed the information, Morandini continued to refuse to identify these individuals, and, instead, terminated the phone call.

25. To date, Morandini has never provided SS and the Member with the names of the other individuals who Morandini admitted had purchased investments offered by Redwood Trust through her husband.

Based on the foregoing, Respondent violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and NASD Rules 2110, 2120, 3040 and 8210.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Morandini from any future misconduct, and to represent a proper discharge by FINRA of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Morandini be barred from associating with any member of FINRA in any capacity.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to IM-8310-3(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA
Signed on behalf of the
Director of ODA, by delegated authority


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