

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 200700893505**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Bradley Delp, Respondent
CRD No. 1701698

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Delp entered the securities industry in 1993. He was employed by LPL Financial (and its predecessor firm) as a registered representative from 1993 until November 2009. He was also associated with an investment advisor from June 2006 through June 2009. Delp was registered as a Series 6, 63, and 65.

OVERVIEW

While employed as a registered representative, Delp recommended that customers participate in a so-called "Stock to Cash" program under which customers would pledge stock to obtain loans to purchase other products. Eight of Delp's customers participated in that program at his recommendation, obtaining nineteen loans totaling approximately \$3.5 million.

Delp did not conduct adequate due diligence concerning the operations or financial stability of the entity that conducted the Stock to Cash program. Delp

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also did not take sufficient action to determine whether his clients' ownership interest in the pledged securities was adequately protected. As a result, Delp misunderstood the potential risks inherent in the program and therefore did not have a reasonable basis for his recommendations. He thus violated NASD Conduct Rules 2310 and 2110.

In addition, Delp assisted his customers in using some of the proceeds of the Stock to Cash loans to purchase marginable securities, such as mutual funds. This violated provisions of the Federal Reserve Board rules governing the use of proceeds of loans secured by certain securities. By so doing, Delp violated Regulation T, Section 7(c)(1) of the Securities Exchange Act of 1934, and NASD Conduct Rule 2110.

FACTS AND VIOLATIVE CONDUCT

The "Stock to Cash" Program

Under the terms of the Stock to Cash program, customers obtained non-recourse loans from a non-broker-dealer company and "pledged" stock to that entity as collateral for the loans. The "pledged" stock would be transferred to the loaning entity's securities account, which was maintained at a clearing firm. The loans were in amounts up to 90% of the value of the "pledged" stock and were typically for a short period of time, usually three years. No payments were required during the term of the loan; instead, customers were required to pay the full principal and interest due at the end of the loan term.

At that time, customers supposedly had four options: (1) the customer could renew the loan for an additional time period; (2) the customer could pay the total amount due on the loan and reclaim the stock that had been pledged; (3) if the value of the pledged stock had increased above the total amount due on the loan, the customer could elect to receive a cash payment equal to this profit (i.e., the current value of the stock, minus the total amount due on the loan); or (4) if the total amount due on the loan exceeded the value of the pledged stock, the customer could "walk away" from the transaction, keeping the money that had been loaned and forfeiting his or her interest in the pledged stock. Certain documentation used by the loaning entity made it appear that the entity was retaining the securities pledged by customers and might use those securities to enter into hedging transactions.¹ The loaning entity also credited dividends paid on the pledged securities against a customer's loan balance.

¹ The loaning entity claimed it was entering into "hedging" transactions using the customers' pledged stock as collateral. This would supposedly generate cash and, through the use of options strategies, allow the entity to return the stock, or sell it and pay the profits, to the customers at the end of the loan terms.

Despite this, however, when customers "pledged" stock as a part of the Stock to Cash program, they actually conveyed full ownership of their stock to the entity conducting the program. That entity routinely sold the securities upon receipt and often moved the money into its own bank account. Moreover, although the entity's ability to perform its contractual obligations under the Stock to Cash program was largely dependent on the success of supposed hedging strategies, it was not always performing such activities.²

By the spring of 2008, the entity running the program became unable to make complete payments to customers with profitable portfolios. It instead used the proceeds from the sale of securities pledged by new customers to pay off its obligations to existing customers. In addition, money was diverted from the entity to pay for expenses not related to its operation. The entity stopped making all payments to customers in early 2009, and stopped making loans in the spring of 2009.

Delp's Participation in the Program

Suitability Violation

Delp recommended Stock to Cash loans to numerous customers while he was registered with LPL Financial. Eight customers accepted his recommendation, taking out nineteen loans totaling more than \$3.5 million. All of these loans were made between May 2005 and May 2008, and were all three years in duration. At least three of the loans, which were renewals of prior loans, were made after the lender began experiencing financial difficulties, as described above.

Prior to recommending that his customers participate in the Stock to Cash program, Delp did not take adequate efforts to find out what happened to the stock that was conveyed to the lender, and did not inquire into what would be done with the stock. He failed to conduct adequate due diligence or research regarding the lender before recommending the Stock to Cash program to clients. He did not conduct due diligence into the financial condition of the lender, instead relying on unverified statements made by the promoter of the Stock to Cash program. Delp told his clients that they could receive their stock back at the end of the loan period.

² Because the customers received 90% of the value of their stock at the time the loan was initiated, and did not have to pay any interest unless they sought to recover stock they had pledged, the potential out-of-pocket loss in any case was limited to 10% of the value of the pledged stock.

As a registered representative, Delp was obligated under Conduct Rule 2310 to have a reasonable basis for recommending that his customers pledge their stock to this lender to participate in the Stock to Cash program. A broker must understand the potential risks and rewards, as well as ensure that the customer understands the risks. In order to do so, the broker must obtain adequate information about the product or investment, and cannot rely solely on the unexamined representations of those promoting it.

By failing to verify information about how the stock was held or secured, and whether the lender had the ability to fulfill its obligations, Delp did not have a reasonable basis for recommending the Stock to Cash program to his customers and potential customers. By making recommendations to customers without a reasonable basis, Respondent Delp violated NASD Conduct Rules 2310 and 2110 (now FINRA Rule 2010).

Improper Use of Margin Credit

Regulation U, 17 C.F.R. §221, promulgated by the Federal Reserve Board of Governors under the authority of Section 7 of the Securities Exchange Act, imposes restrictions on the use of proceeds of a margin loan – a loan secured by an interest in securities – to purchase other marginable securities. It prohibits the extension of credit in excess of 50% of the value of margin securities if the proceeds are used, in whole or in part, to purchase other margin securities, including mutual funds comprised of equities.

Seven of Delp's customers, at Delp's recommendation and with Delp's participation, initially used some or most of the proceeds of the Stock to Cash loans to buy equity-based mutual funds, along with other products. This use of the Stock to Cash loan proceeds to buy other marginable securities violated the restrictions imposed under Regulation U.

Under Regulation T, a broker may only arrange for the extension or maintenance of credit to or for any customer if the broker does not willfully arrange credit that violates Regulation U. 12 C.F.R. §220.3(g). By willfully engaging in the acts described herein, Delp violated Regulation T. In addition, Section 7 of the Securities Exchange Act provides that it "shall be unlawful for any broker or dealer, directly or indirectly, to ... arrange for the extension or maintenance of credit to or for any customer" in violation of the rules promulgated by the Federal Reserve Board, including Regulation U.

By arranging for the extension of credit as described above, Delp violated Section 7 of the Securities Exchange Act, Regulation T, and NASD Conduct Rule 2110.

* * *

Delp recommended that his customer participate in the Stock to Cash program, which included a pledge of securities, without adequately ascertaining the facts necessary to understand the potential risks inherent in the program. As a result, Delp did not have a reasonable basis for his recommendations, and therefore violated NASD Conduct Rules 2310 and 2110 (now FINRA Rule 2010). By arranging for the use of credit in violation of Regulation U, Delp violated Section 7 of the Securities Exchange Act, Regulation T, and NASD Conduct Rule 2110.

B. I also consent to the imposition of the following sanctions:

1. a suspension from association with any FINRA member in any capacity for a period of seventy-five calendar days; and
2. a fine in the amount of \$25,000.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

The fine shall be due and payable either immediately upon reassociation with a member firm following the seventy-five day suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. Respondent specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

I understand that:

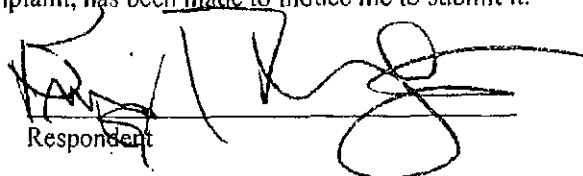
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or

indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

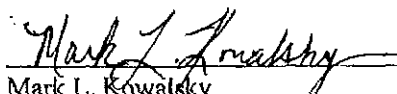
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.
- F. I understand that if I am suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the suspension (see FINRA Rules 8310 and 8311).

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

12.1.10
Date


Respondent

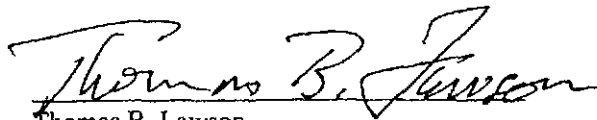
Reviewed by:


Mark L. Kowalsky
Counsel for Respondent
Jaffe Raitt Heuer & Weiss
27777 Franklin Road, Ste. 2500
Southfield, Michigan 48034-8214
(248) 351-3000 x1468

Accepted by FINRA:

12/21/10
Date

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

A handwritten signature in cursive script, reading "Thomas B. Lawson".

Thomas B. Lawson
Vice President and Chief Counsel
FINRA Department of Enforcement
1801 K Street, N.W.
Washington, DC 20006