

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Angelo Xagoraris
(CRD No. 2495422),

Respondent.

DISCIPLINARY PROCEEDING

Nos. 20080127674 & 20080133768

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. During 2005 and 2006, Respondent Angelo Xagoraris made unsuitable recommendations to customers of his member firm, World Group Securities, Inc. (WGS or the firm), to purchase variable universal life policies and mutual funds. Xagoraris also engaged in outside business activity, in the form of a real estate partnership with one of the customers, without providing prompt written notice to WGS. Finally, Xagoraris completed three annual WGS compliance questionnaires in which he denied receiving checks made payable to him from a WGS customer when he had, in fact, received such a check in connection with the outside business activity referenced above.

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RESPONDENT AND JURISDICTION

2. Angelo Xagoraris entered the securities industry on or about May 13, 1994, as an associated person of a member of FINRA. He became registered as an Investment Company Products / Variable Contracts Representative (IR) on or about June 21, 1994. He became registered as an Investment Company Products / Variable Contracts Principal (IP) on or about December 24, 1997. From on or about April 12, 2002, through the present, Xagoraris has been registered with WGS as an IR and an IP.
3. Because Xagoraris is currently associated with a broker-dealer, FINRA has jurisdiction to issue this Complaint.

BACKGROUND

4. During all periods relevant to this Complaint, Xagoraris was a loan officer for a mortgage company that was not affiliated with the firm. Xagoraris provided prior written notice of this outside business activity to WGS and the firm approved it.
5. WGS prohibited representatives from recommending that a customer use any portion of a customer's home equity to invest in an investment product offered by the firm or recommending that a customer take out a home equity line of credit or any other loan to pay for a securities purchase. Xagoraris knew or should have known of these prohibitions.
6. During the relevant period, WGS required that representatives adhere to specified guidelines when recommending variable products. Pursuant to those guidelines, the firm considered variable products to be unsuitable for customers who represented that

their insurance needs were already met and/or expressed a preference for an investment product and not an insurance product.

**FIRST CAUSE OF ACTION
(MAKING UNSUITABLE RECOMMENDATIONS TO CUSTOMER KM
(NASD RULES 2110 AND 2310))**

7. The Department realleges and incorporates by reference paragraphs 1-6 above.
8. On or about February 1, 2005, KM met with Xagoraris for the first time. KM sought Xagoraris's professional assistance with her finances and the assets she obtained in her divorce because she lacked experience with money and investing. She wanted her investments to generate income to meet living expenses. Over the following four months, Xagoraris recommended, *inter alia*, that KM purchase two variable universal life policies. At the time Xagoraris made these recommendations, KM's investment objective was income and she neither wanted nor needed life insurance.
9. At the time of her first meeting with Xagoraris, KM was recently divorced, had three teenage children, and worked as a fitness instructor. Her monthly income was approximately \$3,200.00 and consisted of earnings and \$1,200 per month in temporary child support.
10. Xagoraris completed a financial information questionnaire representing that KM's assets consisted of mutual funds valued at \$6,473.00 in a Roth IRA, \$80,000 in a money market mutual fund, mutual funds valued at \$7,373.00 in a non-qualified account and investments valued at \$415,000.00 in an IRA. KM's invested assets totaled approximately \$508,846.00 and she had approximately \$300,000.00 equity in her home.

11. On or about February 9, 2005, KM met with Xagoraris for the second time. During this second meeting, Xagoraris recommended that KM purchase a variable universal life (VUL) policy. Xagoraris did not make any alternative investment recommendations to KM at the February 9, 2005, meeting. KM did not need or want the life insurance benefit of the VUL. Xagoraris represented that the VUL was really an investment vehicle "masked" as life insurance and KM ultimately followed his recommendation because he was the financial professional.
12. On or about February 9, 2005, Xagoraris completed and KM signed documentation to effect the purchase of a \$250,000.00 VUL policy. The terms of the policy included a requirement that KM make monthly premium payments of \$250.00.
13. Xagoraris received a commission of approximately \$1,250.35 as a result of KM's investment in the \$250,000.00 VUL policy.
14. Beginning on or about May 17, 2005, Xagoraris held several meetings with KM that resulted in KM's purchase of another VUL policy with a face value of \$500,000.00. This VUL policy required a monthly premium payment of \$500.00.
15. The documentation related to the purchase of the second VUL purchase stated that KM's liquid net worth was \$588,000.00 and her annual income was \$64,000.00. These figures represented a 16% increase and an 88% increase, respectively, in liquid net worth and annual income over the figures Xagoraris provided in connection with the first VUL purchase. KM's liquid net worth had not increased by 16% during that time period and her annual income had not increased at all during that time period.

16. When recommending the second VUL purchase to KM, Xagoraris did not offer her any alternative investment recommendations. At the time of the second VUL purchase, KM did not need or want life insurance. Xagoraris again represented that the VUL was really an investment vehicle "masked" as life insurance and she followed his recommendations because he was the financial professional.
17. Xagoraris received a commission of approximately \$2,485.67 on KM's investment in the \$500,000.00 VUL policy.
18. By December 2007, KM had allowed both VUL policies to lapse because she was unable to continue the required premium payments.
19. Xagoraris did not have a reasonable basis for believing the two VUL purchases to be suitable for KM. KM did not want or need life insurance. Further, although KM sought income to supplement her earnings and child support, the VUL purchases caused her to incur additional expenses of \$750.00 per month, approximately 22% of her monthly income at the time of the recommendations. Each instance in which Xagoraris recommended a VUL purchase without a reasonable basis for believing the transaction to be suitable for KM in light of her financial circumstances and needs and investment objectives constituted a violation of NASD Conduct Rule 2310. Such conduct was also inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of NASD Rule 2110 by Respondent Xagoraris.

**SECOND CAUSE OF ACTION
(OUTSIDE BUSINESS ACTIVITY WITH CUSTOMER KM
(NASD RULES 2110 AND 3030))**

20. The Department realleges and incorporates by reference paragraphs 1-6, and 8-19 above.
21. During his initial meeting with KM, Xagoraris recommended that KM refinance her primary residence, through his mortgage brokerage business, in an amount greater than the existing loan and utilize a portion of the excess cash to invest in real estate and/or securities. Based upon this recommendation, KM replaced her fixed, 30-year loan with a remaining balance of \$180,000.00, an interest rate of 4.875% and monthly payments of approximately \$709.00 with an adjustable-rate 30-year loan in the amount of \$290,000.00. The new loan, which closed on or about June 1, 2005, had a first-year rate of 1.00% and a rate cap of 9.5%. Payments were fixed for five years, starting at approximately \$933.00 and increasing incrementally to approximately \$1,246.00. The interest rate reset annually. If the rate increased such that the fixed payments were insufficient to retire principal, the loan would negatively amortize. Further, the monthly payment would rise if the principal balance exceeded 110% of the initial balance. After the initial five years, the projected monthly payments were approximately \$1,880.00. The new loan carried a pre-payment penalty for the first three years.
22. After paying off her original home mortgage, KM received approximately \$101,145.68 in cash-back from the loan that Xagoraris recommended and facilitated.

23. Xagoraris and KM initially considered whether KM should purchase real estate with the excess cash received in the refinance. After KM expressed concern about being liable for the full amount of another mortgage, Xagoraris recommended that he and KM form a "partnership" to purchase a property together. They orally agreed that KM would provide \$70,000.00 from the proceeds of her refinance and Xagoraris would locate a property, obtain a mortgage in his name, obtain tenants and manage the property. The agreement was never memorialized in writing.
24. On or about June 7, 2005, KM provided Xagoraris with a check in the amount of \$70,000.00, payable to Xagoraris personally. The \$70,000.00 represented a portion of the mortgage proceeds. The check was copied onto a receipt, which stated: "I, Angelo Xagoraris, take receipt of \$70,000 from [KM] for the purchase of a property. Address to be determined." Both KM and Xagoraris signed the receipt.
25. On or about July 15, 2005, Xagoraris acquired a property in Arizona for the purported partnership. All costs associated with the property acquisition and closing were paid with the proceeds of KM's \$70,000.00 check.
26. By entering into a business arrangement with KM that entitled him to a portion of any profits generated by the property purchased with KM's funds, Xagoraris accepted compensation and/or was employed outside the scope of his employment with WGS. Such activity required Xagoraris to provide to WGS the prompt written notice described in NASD Conduct Rule 3030; however, he never provided WGS with prompt written notice.
27. The failure to provide prompt written notice to WGS regarding his outside business activity with WGS customer KM, as described above, constituted a violation of

NASD Conduct Rule 3030 by Respondent Xagoraris. Such conduct was also inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of NASD Conduct Rule 2110 by Respondent Xagoraris.

**THIRD CAUSE OF ACTION
(MAKING UNSUITABLE RECOMMENDATIONS TO CUSTOMER RG
(NASD RULES 2110 AND 2310))**

28. The Department realleges and incorporates by reference paragraphs 1-6, 8-19 and 21-27 above.
29. On or about March 6, 2006, RG met with Xagoraris to obtain professional financial advice. At the time, RG had two mortgages on her primary residence with combined monthly payments of approximately \$1,746.00 and was having difficulty meeting her monthly obligations. Fearing that she would lose her home, RG sought professional advice to help her get her finances in order. RG discussed her circumstances and concerns with Xagoraris.
30. At the time she contacted Xagoraris, RG's gross income was approximately \$6,500.00 per month. She had a savings account with a balance of approximately \$4,471.00, approximately \$36,000.00 in a 401(k) account with her employer, and total credit card debts of approximately \$4,700.00. RG's primary residence was valued at approximately \$460,000.00, approximately \$228,638.00 of which represented equity.
31. Xagoraris recommended to RG that she purchase a VUL policy. He did not discuss other investment alternatives with RG. At the time Xagoraris recommended the VUL

purchase, RG did not want or need life insurance. She was not married and had no children. Her immediate family consisted of a father and brother who neither lived with her nor relied upon her financially. RG accepted Xagoraris' recommendation for the VUL policy because he was the financial professional from whom she sought advice.

32. Xagoraris also recommended that RG refinance her home mortgages into a single "pick a payment" mortgage through his mortgage brokerage business. The loan permitted the borrower to choose each month to make (i) a below interest-only payment, which would negatively amortize her principal balance, (ii) an interest-only payment; (iii) a 30-year amortized payment; or (iv) a 15-year amortized payment. The loan had an initial "teaser" interest rate of 1.75% that was effective for the first month, with the rate expected to increase thereafter to approximately 8%.

33. Xagoraris recommended that RG borrow an amount greater than her existing combined mortgage debt so that her home equity could be invested. RG agreed and, at closing, she received approximately \$84,500.00 after repayment of her previous mortgages. As more fully described below, most of these funds were applied to the purchase of securities recommended by Xagoraris.

34. The mortgage recommended by Xagoraris resulted in material financial harm to RG. By June 2007, the interest rate had increased to 8.625% and her principal balance had grown by more than \$12,000.00 because of negative amortization. The interest-only payment option, the least costly alternative that would not result in negative amortization, required a monthly payment of \$2,726.22, approximately \$1,000.00 more per month than her mortgage payment when she first met with Xagoraris.

35. RG lacked sufficient current income to make any of the payments that would prevent negative amortization. Although RG eventually was able to obtain a 30-year fixed loan and retire the loan facilitated by Xagoraris, she was required to pay a \$9,000.00 pre-payment penalty to accomplish this.
36. On or about March 10, 2006, RG met again with Xagoraris. During this second meeting, RG signed documents to purchase the \$600,000.00 VUL policy previously recommended by Xagoraris. The VUL policy required a monthly premium payment of \$500.00. RG initially funded the purchase of the VUL policy with a personal check in the amount of \$500.00. Xagoraris received a commission of approximately \$1,278.90 as a result of RG's investment in the \$600,000.00 VUL policy.
37. On or about May 13, 2006, Xagoraris delivered the VUL policy to RG and RG provided Xagoraris with a \$20,000.00 check to "front-load" the policy. By front-loading the policy, RG deposited funds from which the \$500.00 monthly premium payments would be deducted over time, thus eliminating the need to make a premium payment each month until the deposit was exhausted. The \$20,000.00 represented a portion of the funds RG obtained in the refinance described in paragraphs 32 and 33 above. RG front-loaded the VUL policy because she could not afford to pay the \$500.00 monthly premium from current income.
38. In or around October 2008, the firm rescinded the VUL policy and repaid the premiums to RG.

39. On or about May 13, 2006, RG also gave Xagoraris two additional checks in the amounts of approximately \$5,000.00 and \$55,000.00, respectively, for investment in IDEX mutual funds recommended by Xagoraris, as discussed below. One check in the amount of approximately \$5,000.00 was dated May 13, 2006, and made payable to WGS. The second check in the amount of approximately \$55,000.00 was post-dated May 18, 2006, and made payable to IDEX Investors Services. Both of these checks represented funds received from RG's home mortgage refinance.
40. Xagoraris delivered RG's \$5,000.00 to WGS. This IDEX investment was reviewed, approved and processed by the firm. Several days later, after IDEX had established an account for RG upon receipt of the \$5,000.00 investment, Xagoraris forwarded the \$55,000.00 check directly to IDEX for investment. The \$55,000.00 investment was not reviewed, approved or processed by WGS. Xagoraris received a commission of approximately \$1,404.18 on RG's investments in IDEX.
41. Xagoraris did not have a reasonable basis for believing that it was suitable for RG to purchase a VUL and mutual fund shares using the proceeds of a home mortgage refinance. RG could not afford these investments without exposing her primary residence to significant risk of loss by obtaining a mortgage that liquefied a portion of her home equity, a risk that was exacerbated by the non-traditional mortgage that Xagoraris both recommended and facilitated through his own outside business. Further, Xagoraris did not have a reasonable basis for believing it was suitable to recommend a VUL to RG when RG had no need for life insurance.
42. Each instance in which Xagoraris made a recommendation to RG to purchase a security without a reasonable basis for believing that recommendation to be suitable

in light of RG's financial circumstances and needs and investment objectives constituted a violation of NASD Conduct Rule 2310. Such conduct was also inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of NASD Conduct Rule 2110 by Respondent Xagoraris.

**FOURTH CAUSE OF ACTION
(PROVIDING FALSE INFORMATION TO EMPLOYER FIRM
(NASD CONDUCT RULE 2110))**

43. The Department realleges and incorporates by reference the allegations of paragraphs 1-6, 8-19, 21-27 and 29-42, above.
44. Following the receipt of the \$70,000.00 check from KM on June 7, 2005, as described in paragraph 24 above, Xagoraris completed and signed three compliance questionnaires required by WGS. He completed these questionnaires on October 12, 2005, January 14, 2006 and November 6, 2006. On each questionnaire, he answered "yes" to the question "I have not accepted from a customer or a WGS representative, any cash, a check made payable to myself, or shared in any profit or loss in a customer or any WGS representative account."
45. When Xagoraris provided "yes" answers to this question, he knew or should have known that the answers were untruthful because he had received a \$70,000.00 check from KM made payable to him personally.
46. By providing untruthful information to his employer firm, Xagoraris engaged in conduct inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of NASD Conduct Rule 2110 by Xagoraris.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed.
- B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: January 25, 2011



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