

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011029445601**

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

RE: Scott D. Schroeder, Respondent
Former General Securities Representative
CRD No. 2277248

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Scott D. Schroeder ("Schroeder" or "Respondent") submits 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, 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

Schroeder entered the securities industry in 1992, as a General Securities Representative with a FINRA member firm. In 2003, he associated with former FINRA member firm Milkie Ferguson Investments, Inc. ("Milkie"). On January 27, 2012, Milkie filed a Form U5 terminating Schroeder's association with the firm as of January 17, 2012. He has not since associated with another FINRA member firm. During his career in the securities industry, Schroeder acquired Series 3, 7, 63 and 65 securities licenses.

Although Schroeder is not currently associated with a FINRA member firm, FINRA retains jurisdiction over him pursuant to Article V, Section 4(a) of FINRA's By-Laws, which provides for a two-year period of retained jurisdiction over formerly registered persons.

RELEVANT DISCIPLINARY HISTORY

On November 20, 2012, FINRA issued an Order Accepting an Offer of Settlement (No. 2009016271801) in which Schroeder was suspended in all capacities for two months and fined \$15,000 for violations of FINRA Rule 2010 and NASD Rule 2110 for contravening Section 5 of the Securities Act of 1933. Schroeder consented to findings that he sold Provident Royalty Shale offerings, unregistered securities offered pursuant to exemptions from registration offered by Rule 506 of Regulation D, after statements that were deemed to be general solicitations were made by others on a radio show. The Provident offerings could not be sold through general solicitations and continue to maintain their exempt status. Therefore, Schroeder's sales constituted impermissible sales of unregistered securities.

In July 2004, the TSSB brought an action (No. IC04-CAF-11) against Schroeder for engaging in the sale of securities in the State of Texas without proper registration and fined him \$5,000 for violations of the Texas Securities Act.

OVERVIEW

During the period from August 2008 to March 2010, Schroeder made unsuitable investment recommendations to three customers in violation of NASD Rules 2310 and 2110 and FINRA Rule 2010, and he made material misrepresentations and omitted to disclose material facts to customers in violation of NASD Rule 2110 and FINRA Rule 2010. Schroeder also violated FINRA Rule 2010 by contravening his member firm's policies and procedures by facilitating a loan application for a customer who used the loan proceeds to make an investment recommended by Schroeder. Schroeder failed to disclose the source of the customer's investment funds to his member firm.

FACTS AND VIOLATIVE CONDUCT

1. Unsuitable Investment Recommendations

Customers FC and NC

In August 2008, Schroeder made unsuitable investment recommendations to elderly customers FC and NC, a married couple. FC was a 70-year-old retiree, and NC was a 65-year-old realtor who earned \$25,000 to \$40,000 per year. FC's and NC's net worth consisted of approximately \$400,000 in a retirement account comprised of cash and growth and income mutual funds. Their investment objectives were, in the order of importance: income, capital preservation, and capital appreciation. Their risk tolerance was moderate. Neither FC nor NC had a pension or any other retirement accounts. They lived off of Social Security and NC's income, and supplemented their income with monthly distributions from their retirement account in order to pay their living expenses. FC and NC told

Schroeder that they wanted a safe investment that would generate at least \$4,200 in monthly income.

Schroeder recommended that FC and NC liquidate a portion of their mutual fund holdings and use the proceeds to invest \$100,000 in oil and gas interests issued by Provident Royalties, LLC ("Provident") and \$150,000 in life settlement contracts issued by Life Partners, Inc. ("LPI"). The offering materials for both the Provident and the LPI investments state that the investments are high-risk and that investors could lose all of their investment funds. Provident subsequently defaulted, and FC and NC lost their entire \$100,000 investment.

Schroeder's recommendation that FC and NC invest over 60% of their retirement savings in high-risk investments was unsuitable in light of FC's and NC's age, net worth, income, investment objectives, risk tolerance, and FC's retirement status.

Customer JB

Customer JB was a 74-year-old retiree at the time that he met Schroeder in January 2010. JB had annual income of approximately \$50,000, including \$18,000 from Social Security and his wife's \$32,000 annual income. JB and his wife had liquid net worth of approximately \$40,000 and total net worth of \$500,000 to \$600,000. Their investment objective was long-term growth, and their risk tolerance was moderate. Schroeder recommended that JB invest in two high-risk investments. Specifically, Schroeder recommended that JB invest \$150,000 in life settlement contracts issued by Retirement Value, LLC ("RV") and \$50,000 in a high-risk assisted living facility private placement investment.

The offering materials for both the RV and the assisted living facility investments state that the investments are high-risk and that investors could lose all of their investment funds. In May 2010, a receiver was put in place to take over the business operations of RV. The investment is not currently making any principal or interest payments.

Schroeder's recommendation that JB invest 33% to 40% of his retirement assets in high-risk investments was unsuitable in light of JB's age, net worth, income, retirement status, investment objectives, and risk tolerance.

Based on the foregoing, Schroeder made unsuitable investment recommendations in violation of NASD Conduct Rules 2310(a) and 2110 (for his actions prior to December 15, 2008), and FINRA Rule 2010 (for his actions on and after December 15, 2008).

2. Violation of Member Firm's Policies and Procedures

In June 2009, Schroeder recommended that customer MK invest in RV. Schroeder subsequently assisted MK in obtaining a loan with which to implement Schroeder's investment recommendation. Specifically, Schroeder assisted MK by recommending potential lenders to MK, contacting a potential lender with MK to discuss loan terms, advising MK to take a line of credit versus a fixed equity loan, contacting the lender to confirm the loan terms, and reviewing MK's loan documents prior to the loan being finalized. After MK's loan in the amount of \$400,000 was approved, he used the entire loan amount to invest in RV.

Schroeder did not disclose the source of MK's investment funds to his employer member firm, Milkie, at the time he processed MK's RV investment through the firm. Milkie's written supervisory procedures expressly prohibited registered representatives from allowing customers to utilize borrowed funds to make investments.

Although the RV investment is not currently making principal or interest payments, MK is still responsible for making monthly loan payments.

Based on the foregoing, Schroeder violated FINRA Rule 2010.

3. Material Misrepresentations and Omissions

During the period from August 2008 to March 2010, Schroeder made material misrepresentations and omitted material facts in connection with offers and sales of certain investment products. Specifically, Schroeder omitted to disclose to customers JB and MK that the owner and CEO of RV had prior disciplinary history for actions brought by the Securities and Exchange Commission, TSSB, and the Texas Department of Insurance in connection with fraudulent offers and sales of investment products to the public. Schroeder also misrepresented to FC and NC that the Provident and LPI investments were safe investments that would not put their investment principal at risk, when in fact the offering documents for both investments state that the investments are high-risk and that investors may lose all of their investment funds. He made similar misrepresentations to JB regarding the RV and assisted living facility investments. Finally, Schroeder failed to disclose to FC and NC that the income distribution payment that he caused to be sent to them each month--purportedly from earnings on their Provident and LPI investments--included a portion of the emergency cash reserve funds in their Milkie account.

Based on the foregoing, Schroeder violated NASD Conduct Rule 2110 (for his actions prior to December 15, 2008), and FINRA Rule 2010 (for his actions on and after December 15, 2008).

- B. Respondent also consents to the imposition of the following sanctions:

A bar from association with any FINRA member firm in any capacity.

Respondent understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against him
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment 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.

Respondent further specifically and voluntarily waives 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

Respondent understands 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against him;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's 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. Respondent 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. Respondent 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 Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has 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 him to submit it.

9-18-13
Date



Scott D. Schroeder, Respondent

Reviewed by:

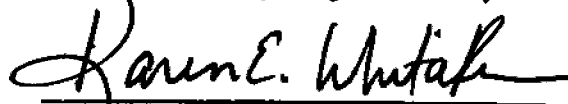


Counsel for Respondent

Accepted by FINRA:

10/9/2013
Date

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



Karen E. Whitaker
Senior Regional Counsel
FINRA Department of Enforcement
12801 North Central Expressway, Suite 1050
Dallas, TX 75243
Phone: 972-716-7610; Fax: 972-716-7612