

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011029747001**

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

RE: Maurice Joseph Chelliah ("Chelliah") CRD: 4385058

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

Chelliah first entered the securities industry in April 2001 with FINRA regulated broker-dealer WMA Securities, Inc. ("WMA"). In June 2001, he passed the Series 6 and 63 examinations and became a registered representative.¹ In April 2002, Chelliah became a registered representative and supervisor of World Group Securities, Inc.'s ("WGS" or "the Firm"), Orange County, California branch office until his voluntary resignation on January 15, 2009. Chelliah was next employed as a registered representative with FINRA regulated broker-dealer First Midwest Securities, Inc. ("FMS") from January 27, 2009 until his voluntary resignation on December 15, 2009. Subsequently, Chelliah was employed as a registered representative with FINRA regulated broker-dealer Evolve Securities, Inc. from March 29, 2010 until his voluntary termination from employment on July 7, 2010.

Although Chelliah is not currently associated with a FINRA member, he remains subject to FINRA's jurisdiction until October 11, 2013, pursuant to Article V, Section 4 of the FINRA by-laws, based upon the filing of an amended Form U5 dated October 11, 2011.

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¹ Chelliah also passed the Series 26 examination on March 15, 2002.

RELEVANT DISCIPLINARY HISTORY

Chelliah has no prior disciplinary history in the securities industry.

OVERVIEW

Between October 22, 2007 and April 28, 2010, Chelliah converted \$90,000 from two WGS customers who are husband and wife. In addition, between October 1, 2005 and January 15, 2009, Chelliah made unsuitable recommendations to five WGS customers. Specifically, Chelliah recommended that these customers refinance their primary residences and use the proceeds to purchase securities and insurance policies that they did not need and otherwise could not afford. As a result of Chelliah's recommendations, certain customers lost their securities, their life insurance policies and their residences when they were unable to keep their mortgages current.

FACTS AND VIOLATIVE CONDUCT

Conversion

NASD Rule 2110 and FINRA Rule 2010¹ provide that a member, "in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade." Conversion is "any unauthorized act which deprives an owner of his property permanently or for an indefinite time" or the "unauthorized and wrongful exercise of dominion and control over another's personal property, to exclusion of or inconsistent with rights of the owner."

WGS customers WK and BK were 80 and 75 years-old respectively, and were unsophisticated investors. On 13 separate occasions, between October 22, 2007 and April 28, 2010, Chelliah recommended that BK liquidate mutual fund shares jointly held with her husband in order to meet certain of their financial obligations. Following the liquidation, the proceeds totaling \$90,000 were transferred to Chelliah via checks made payable to one of three outside businesses that Chelliah controlled. WK and BK provided these funds to Chelliah in order for him to pay monthly bills and expenses on their behalf. Instead, of paying WK and BK's bills and expenses, Chelliah used these funds for his own personal benefit. In total, Chelliah converted approximately \$90,000 from WK and BK in violation of NASD Rule 2110 and FINRA Rule 2010. Chelliah has not returned the funds he converted from these customers.

Unsuitable Transactions

NASD Rule 2310 provides in pertinent part, that "in recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs..."

Customers WK and BK

In 2006, customers WK and BK had an outstanding mortgage balance of approximately \$30,000 on their \$500,000 home. WK and BK were struggling to pay monthly bills and they advised Chelliah

¹ NASD Rule 2110 was superseded by FINRA Rule 2010 on December 15, 2008.

that they were interested in a reverse mortgage in order to obtain a little extra monthly income for home repairs. In October 2006, Chelliah presented WK and BK with a mortgage loan application for a 40-year adjustable rate mortgage ("ARM") in the amount of \$450,000. WK and BK did not understand the mortgage documents that they were signing and relied upon Chelliah's representations that they were applying for a reverse mortgage. The mortgage had negative amortization provisions,¹ monthly payment caps, and a maximum interest rate cap of 10.355%. After refinancing expenses, and paying off a pre-existing mortgage, WK and BK cleared \$412,575. WK and BK's initial ARM monthly payment was \$1,247 which increased to approximately \$1,600 within one year of the initial teaser rate period.

In October 2006, Chelliah also recommended that WK and BK use the mortgage loan proceeds to purchase two Equity Index Universal Life insurance policies ("EIULs") and invest \$345,000 in a mutual fund.² WK and BK were elderly, unsophisticated investors who neither requested nor required life insurance. WK and BK relied upon Chelliah's representations that they could afford these products, even though their combined annual income was only \$40,000. The monthly EIUL insurance premiums were \$1,600 for BK and \$2,000 for WK and were required until age 100. Chelliah received combined commissions of approximately \$45,000 on the two EIULs.

By 2009, as a result of their investments in products recommended by Chelliah, WK and BK were unable to keep their mortgage current, pay their EIUL premiums or meet their basic living expenses. In July 2011, the mortgagee on WK and BKs' residence initiated foreclosure proceedings against them. On October 16, 2012, WK and BK were forced to short-sell their home to the mortgagee. As a result of Chelliah's unsuitable recommendations, WK and BK's losses exceeded \$330,000.

Customers RR and GR

In October 2005, Chelliah recommended that WGS customers RR and GR, husband and wife, refinance their residence and a rental property utilizing ARMs. Customers RR and GR were elderly, retired and unsophisticated investors with no prior securities related experience. They had a net worth of approximately \$200,000 consisting of the value of their rental property and approximately \$20,000 in cash. RR and GR's annual income was \$60,000, which included \$30,000 from social security and \$200 a month from rental income. In reliance upon Chelliah's advice, RR and GR mortgaged their primary residence and rental property for a combined total of \$1,308,000, netting approximately \$471,000 after expenses and paying off the existing mortgages.

The ARMs had monthly payment caps that could result in significant negative amortization. In November 2005, Chelliah recommended that RR and GR invest \$200,000 of the refinance proceeds in a mutual fund. In December 2005, Chelliah also recommended that RR and GR purchase a \$600,000 universal life insurance policy with a \$24,000 annual premium. The combined monthly mortgage and insurance premium payments from the products that Chelliah had recommended far exceeded RR and GR's monthly income. In 2007, Chelliah next recommended that RR and GR withdraw funds from the mutual fund they had previously purchased in order to meet their monthly

¹ In a negative amortization loan, the principal is not reduced because the payments being made are not enough to cover the interest costs and the interest that is not paid is added to the outstanding principal balance. Here, the mortgage had a 125% maximum outstanding principal clause. The clause required that regardless of monthly payment caps, the amount of outstanding principal above 125% would be added to each mortgage payment in a sufficient amount to repay the unpaid principal in full on the maturity date.

² WGS's Written Supervisory Procedures prohibited the acceptance of mortgage proceeds for investment purposes.

mortgage, interest and premium payments. RR and GR followed Chelliah's recommendation and, by August 2009, the mutual fund was depleted. RR and GR were unable to keep their residential and rental property mortgages current. By 2012, their combined mortgage debt had doubled, exceeding \$1.7 million. The mortgagee foreclosed on both their home and rental property in 2012.

As a result of Chelliah's recommendation that RR and GR refinance their mortgages and purchase a mutual fund that they did not need and otherwise could not afford, RR and GR incurred losses of approximately \$450,000.

Customer GM

In 2006, GM was having difficulty meeting his monthly financial obligations. GM's net worth was approximately \$20,000 and his annual income was \$70,000. Chelliah advised GM to refinance his home and use the proceeds to purchase a universal life insurance policy with an annual premium of \$30,000 for the first five years. GM was an unsophisticated investor who never requested or needed life insurance. GM followed Chelliah's advice and mortgaged his \$475,000 home with a \$240,000 negative amortization ARM. GM netted approximately \$170,000 in mortgage proceeds after paying certain loans. GM's initial mortgage payment was approximately \$1,000 per month.

In 2006, Chelliah recommended that GM invest \$50,000 of the mortgage proceeds in a mutual fund. Chelliah represented that after 20 years, GM would have sufficient funds to pay off his mortgage. At Chelliah's recommendation, GM withdrew funds from his mutual fund to keep up with his monthly payment obligations. However, by 2008, GM's monthly mortgage payment had risen from \$1,000 per month to over \$1,800 per month and he was unable to keep his mortgage current. By 2009, GM had depleted the mutual fund and could no longer continue to pay his mortgage and insurance premiums. GM applied for a loan modification, which was denied. In June 2012, as a result of Chelliah's unsuitable recommendations, the mortgagee foreclosed on GM's home.

As a result of Chelliah's recommendation that GM refinance his mortgage and purchase a mutual fund that he did not need and otherwise could not afford, GM incurred significant losses and lost his home.

By virtue of each of his unsuitable recommendations, Chelliah violated NASD Rules 2310 and 2110, and FINRA Rule 2010.

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

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

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

I understand that if I am barred or suspended from associating with any FINRA member, I become 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, I 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).

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 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.

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:

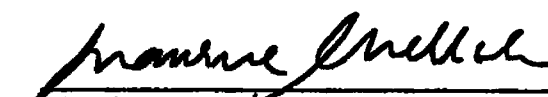
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;**
- B. If this AWC is not accepted, its submission will 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: (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.

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 [the Firm] to submit it.

9-5-2013

Date


Maurice Joseph Chelliah, Respondent

Accepted by FINRA:

9-11-2013

Date

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


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