

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Jeffrey D. Noard,
(CRD No. 1983392),

Respondent.

DISCIPLINARY PROCEEDING
No. 2012034936101

Hearing Officer—

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. During June 2012, Respondent Jeffrey Noard made an unsuitable recommendation for investments totaling \$20,000 to one of his elderly customers at Allied Beacon Partners, Inc. As a result of this unsuitable recommendation, Noard violated NASD Rule 2310¹ and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

2. Jeffrey Noard has been registered as a General Securities Representative with several FINRA members since October 1989. Noard was registered with Allied Beacon from February 2011 to June 2013. Since leaving Allied Beacon in June 2013, Noard has been a registered representative at another FINRA member firm.

¹ NASD Rule 2310 was superseded by FINRA Rule 2111 on July 9, 2012, after the transactions at issue here.

FACTS

GWG Renewable Secured Debentures

3. GWG Holdings, Inc. is a Delaware corporation headquartered in Minnesota. GWG, through its subsidiaries, purchases life insurance policies on the secondary market at a discount to the face value of the policies. Once GWG purchases a policy, it has the obligation to keep the policy in effect by paying the policy premiums until the insured passes away. Upon the insured's death, GWG collects the face value of the insurance benefit. The objective of this business is to earn returns by collecting more money upon the insured's death than the amount that GWG pays to purchase, finance, and service the policies. GWG has a limited operating history, however, and has purchased almost all of the policies it owns with funds borrowed from financial institutions or investors.

4. In 2012, in an effort to continue funding and operating its business model, GWG began selling "Renewable Secured Debentures" to investors. Renewable Secured Debentures are registered debt instruments that offer investors varying maturity terms and interest rates, ranging from six-month Debentures offering an annual interest rate of 4.75%, to seven-year Debentures offering an annual interest rate of 9.50%.

5. As stated in the May 2012 prospectus, the Debentures are illiquid, speculative investments that involve a high degree of risk—including the risk of losing the entire investment. There is no trading market for the Debentures and investors cannot access their principal prior to maturity absent death, bankruptcy, or total disability.²

6. Unless the investor provides written notification to GWG that the investor wishes to redeem the Debentures upon maturity, the Debentures are automatically renewed.

² If GWG opts to prepay, other than under those circumstances, a prepayment fee of 6% is charged to the investor; the prospectus cautions that an investment in the Debentures is not suitable for investors who need liquidity.

7. In addition to being illiquid and speculative, the Debentures are not directly secured by life insurance policies. The May 2012 prospectus for the Debentures states that the underlying life insurance policies are not direct collateral for obligations under the Debentures. Instead, those policies have been separately pledged to a bank as collateral for the line of credit used by GWG to purchase the policies.

8. According to the May 2012 prospectus, proceeds from the sale of the Debentures may be used: (i) to purchase life insurance policies; (ii) to pay premiums on life insurance policies; (iii) to pay for offering and operational expenses; (iv) for general working capital; (v) to pay principal and interest on the Debentures; (vi) to pay commissions on sales of the Debentures; and (vii) to pay principal amounts owed under its subsidiary secured notes when such notes become due and payable. The amount of such notes that GWG would repay with proceeds from the Debenture sales depends on whether the holders of previous notes elect repayment rather than renewal of such notes.

9. The May 2012 prospectus for the Debentures further indicates that the company's success is dependent upon, among other things, its continued ability to raise funds to pay its obligations—including interest payments under the Debentures.

10. One of the fundamental risks of the Debentures, according to the May 2012 prospectus, is GWG's reliance on financing. The prospectus states that GWG has chosen to finance its business "almost entirely" through the issuance of debt, and that its business model expects that GWG will have continued access to financing. GWG states that it expects to rely on debt to satisfy its ongoing financing and liquidity needs, including the costs associated with the ongoing offer and sale of the Debentures.

11. The May 2012 prospectus outlines some additional risk factors, such as GWG's limited operating history, the illiquidity of the Debentures and the relative illiquidity of life insurance policies, GWG's financing requirements, risks related to a bankruptcy "claw back" litigation involving GWG's controlling stockholders and principal executives, and the valuation of assets listed on GWG's financial statements.

12. Further, the May 2012 prospectus warns that if holders of GWG's subsidiary secured notes were to fail to renew those notes with the frequency GWG has historically experienced, and cash flows from its portfolio of life insurance policies do not occur as actuarial projections have forecasted, there is a risk that investors will lose their entire investments.

13. The May 2012 prospectus states that the Debentures are suitable only as a long-term investment for persons of adequate financial means who have no need for liquidity, as there is no public market expected for the Debentures.

14. GWG's suitability standards, according to the May 2012 prospectus, require that a potential investor understands the fundamental and significant risks of the investment, including the risk that such investor may lose his or her entire investment.

Noard's Unsuitable Recommendation to Customer JD

15. In June 2012, JD was an eighty-two year old retired widow and was Noard's customer at Allied Beacon.

16. At that time, JD's investment objective was to earn income to partially fund her retirement.

17. JD had disclosed an income of \$40,000 per year, an estimated net worth of \$150,000, and liquid net worth of \$40,000.

18. JD had no investment experience with alternative investments.

19. JD's risk tolerance was identified on her client profile form as "moderately conservative," a term defined on the form as: "I am willing to accept low risk to my initial principal, including low volatility, to seek a modest level of portfolio returns."

20. JD could not afford to lose any investment principal.

21. JD was regularly drawing down her investments to provide gifts to family members. As a result, she had significant liquidity needs.

22. Noard knew of JD's financial circumstances and investment objectives.

23. In June 2012, Noard recommended that JD purchase \$10,000 of a two-year term GWG Debenture and \$10,000 of a six-month term GWG Debenture.

24. Noard's recommended investment committed 50% of JD's liquid net worth to a single, illiquid, high-risk investment, which could potentially result in the loss of the entire principal amount of her investment.

25. On June 16, 2012, JD executed subscription agreements to purchase a \$10,000 two-year term GWG Debenture and a \$10,000 six-month term GWG Debenture.

26. At the time Noard recommended that JD purchase the GWG Debentures, he did not have reasonable grounds for believing the transaction was suitable based upon JD's financial situation and needs.

**FIRST CAUSE OF ACTION
Suitability
(NASD Rule 2310 and FINRA 2010)**

27. Enforcement realleges and incorporates by reference paragraphs 1-26 above.

28. As described above, customer JD is an elderly widow seeking income to fund her retirement with few financial assets, significant liquidity needs, and a "moderately conservative" risk tolerance. JD could not afford to lose investment principal.

29. In June 2012, Noard recommended that JD invest a total of \$20,000 in GWG Debentures.

30. Noard did not have reasonable grounds for believing that the proposed investment in GWG Debentures was suitable for JD based upon the financial situation, objective, and needs of the customer.

31. As a result of the foregoing conduct, Noard violated NASD Rule 2310 and FINRA Rule 2010.

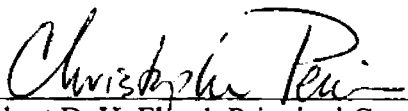
RELIEF REQUESTED

WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and
- C. order that Respondent bears such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: November 25, 2014


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