

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E3B2003026801

TO: Department of Enforcement
NASD

RE: Gary L. Craig, Respondent
General Securities Principal
CRD No. 874487

Pursuant to Rule 9216 of NASD 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 in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against me alleging violations based on the same factual findings.

I understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
3. If accepted:
 - a. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against me;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about my disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects my testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

I also understand that my experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Gary L. Craig entered the securities industry in October 1979 as an associated person of a member of NASD. In November 1979 he became registered as a Direct Participation Programs Representative, Investment Company / Variable Contracts Representative and Securities Trader. Since August 1982 he has been registered through Craig & Associates, Inc., initially as a Direct Participation Programs Principal, since February 1986 as a General Securities Principal and General Securities Representative, and since August 1997 as a Direct Participation Programs Representative.

Respondent Craig has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against me;
- B. To be notified of the Formal 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 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 Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD 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 NASD:

1.

Gary L. Craig was the Chairman of Partners Mortgage Corporation ("Partners"), which engaged in the business of mortgage lending. He participated in Partners' solicitation of investments in the Partners Mortgage Corporation Series A Mortgage-Backed Note Fund ("the Note Fund"). The promissory notes issued by Partners ("Partners Notes") were secured by undivided interests in a pool of mortgage obligations, generally short term loans secured by mortgages and deeds of trust on residential, multi-family and commercial properties.

During the period from December 2002 until September 2003, while he was registered with Craig & Associates, Inc., Respondent Craig participated in the preparation and distribution of sales literature to prospective investors on behalf of Partners.

Potential investors in the Note Fund received a marketing folder, which included a "welcome letter." The letter stated that investors in the Note Fund would receive a high rate of interest "while enjoying a substantial degree of safety." The Private Placement Memorandum ("PPM") for the Note Fund disclosed 20 risk factors, including the fact that borrowers under the mortgages acquired by Partners were often high risk borrowers with an increased risk of default in payment of their obligations. In addition, the PPM noted that Partners' underwriting standards were generally less stringent with regard to borrowers' credit standing and repayment ability than the standards generally acceptable to

major mortgage agencies. The "welcome letter" did not disclose the risks involved in the Note Fund. The statement in the "welcome letter" which characterized the investment in the Note Fund as having a "substantial degree of safety" was unwarranted and misleading.

The marketing folder stated that Partners' "mission" was "to provide our investor-partners with a secure high-yield investment through a professionally managed, diversified, asset-backed mortgage fund." Because of the substantial risks involved in the Note Fund, the statement characterizing the investment as "secure" was unwarranted and misleading.

The marketing folder included testimonials from Partners investors. It did not state clearly that the testimonials might not be representative of the experience of other investors, or that the testimonials were not indicative of future performance or success.

The marketing folder also included a promotional flyer entitled, "About Us..." That document stated that Partners offered investors a high rate of interest "along with a substantial degree of safety." It also stated, "We're confident the protection of the portfolio principal is secured by our sound, safe lending practices." Because of the substantial risks involved in the Note Fund, those statements were unwarranted and misleading.

The "About Us..." flyer stated, "The safety of Partners results from lending a small amount in relation to the value of the borrower's property. The Partners' real estate portfolio generally averages around a low, 50% loan-to-value ratio." The flyer failed to disclose that Partners' maximum loan-to-value ratio was 70%, and that the 50% average loan-to-value ratio could therefore increase substantially.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rule 2210(d)(1)(A), 2210(d)(1)(B) and 2210(d)(2)(D).¹ Such conduct is inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of Conduct Rule 2110 by Respondent Craig.

2.

¹ NASD Conduct Rule 2210 was amended effective November 3, 2003, and June 28, 2004. All references in this Letter of Acceptance, Waiver and Consent are to the Rule in effect at the time of Respondent's conduct.

On or about July 14, 2003, Respondent Craig sent a letter on behalf of Partners to its existing investors. The letter began with the heading, "HERE'S AN IDEA TO INCREASE YOUR INCOME." It suggested that investors consider borrowing money, secured by mortgages against their homes, and investing the mortgage proceeds in Partners Notes. The letter stated, "Investors are simply taking advantage of the spread between current low mortgage rates, and the current high rate on Partners Mortgage Corporation Mortgage-Backed Notes. Banks take advantage of this 'spread' every single day."

The letter described the experiences of two Partners investors who had borrowed money at low rates, secured by their homes, and had purchased Partners Notes which paid higher rates of interest. Regarding one of those investors, it stated, "Not a bad income increase for very little effort!" Regarding the second investor, it stated, "The monthly interest check he receives from PMC covers his entire payment on the new loan. Essentially, he has no mortgage payment! . . . You can bet he's happy!"

The letter did not disclose the substantial risks involved in the Note Fund. It failed to note that an investor who mortgaged his or her home could not rely upon a stream of interest income from Partners to make his or her mortgage payments. Those payments would cease when the Note matured or if Partners prepaid the Note. Moreover, in the event of a default by Partners, such an investor might not recover his or her principal. If the investor's other liquid assets and income were insufficient, he or she might be unable to make mortgage payments and would face the possible loss of his or her home through foreclosure.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rule 2210(d)(1)(A) and 2210(d)(1)(B).² Such conduct is inconsistent with high standards of commercial honor and just and equitable principles of trade and a violation of Conduct Rule 2110 by Respondent Craig.

B. I also consent to the imposition, at a maximum, of the following sanctions:

Gary L. Craig shall be fined in the amount of \$10,000 and shall be suspended from associating with any member of NASD in any capacity for

² NASD Conduct Rule 2210 was amended effective November 3, 2003, and June 28, 2004. All references to the Rule in this Letter of Acceptance, Waiver and Consent are to the Rule as it was in effect at the time of Respondent's conduct.

a period of four months.

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

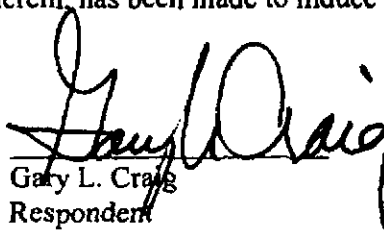
III.

OTHER MATTERS

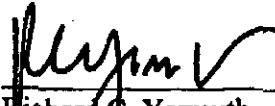
- A. I understand that I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. I agree to pay any monetary sanctions imposed on me upon notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which I propose to pay any fine imposed.
- C. I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.
- D. I understand that if I am barred or suspended from associating with any NASD 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 NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

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, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce me to submit it.

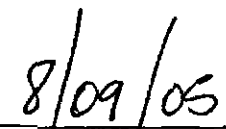
MARCH 1, 2005
Date


Gary L. Craig
Respondent

Reviewed by:


Richard C. Yarmuth
Counsel for Respondent

Accepted by NASD:


Date


James Dawson
District Director

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