

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Gary Michael Strange
(CRD No. 1655033),

and

Laurie B. Strange
(CRD No. 6193480),

Respondent.

DISCIPLINARY PROCEEDING
No. 2016050990401

HEARING OFFICER - CC

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: February 16, 2018

INTRODUCTION

Disciplinary Proceeding No. 2016050990401 was filed on December 11, 2017, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Gary Michael Strange submitted an Offer of Settlement (Offer) to Complainant dated February 8, 2016. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, 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, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent entered the securities industry in March 1994. In July 2002, he became associated with Principal Securities, Inc. a/k/a Princor Financial Services Corporation ("Principal Securities" or the "Firm"). Respondent was associated with Principal Securities until he voluntarily resigned in December 2015, in order to join another broker-dealer. This broker-dealer terminated Respondent's registration in August 2016.

Gary Strange holds the following licenses: Series 6 (Investment Company and Variable Contracts Products Representative), Series 7 (General Securities Representative), Series 26 (Investment Company and Variable Contracts Products Principal), Series 63 (Uniform Securities Agent State) and Series 65 (Uniform Investment Adviser Law).

Respondent is not currently associated with a FINRA member firm, but he remains subject to FINRA's jurisdiction for purposes of this proceeding pursuant to Article V, Section 4 of FINRA's By-Laws because the Complaint in this matter was filed within two years after the effective date of termination of Respondent's registration and the Complaint charges him with misconduct committed while he was registered with a FINRA member firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows. The findings herein are pursuant to Respondent Gary Strange's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

SUMMARY

1. During 2015, Gary Strange, a registered representative, and his wife Laurie Strange, an associated person, borrowed a total of \$153,506.57 through two loans from ML and JL (collectively, "the Customers"), a husband and wife who were Gary Strange's customers at Principal Securities, the FINRA-member firm with which Respondents were associated at the time. Gary Strange never disclosed the loans to the Firm and never obtained the Firm's prior written approval to enter into the loans with the Customers. Moreover, Respondents coordinated and accepted the loans after the Firm started inquiries into a complaint about Gary Strange's borrowing from another former customer, HB. Indeed, Respondents coordinated and accepted the larger of the two loans from the Customers after the Firm issued a Letter of Reprimand to Gary Strange regarding his financial dealings with HB, fined him, and placed him on heightened supervision. To date, Respondents have not repaid \$141,500 of their debt to ML and JL. By virtue of this conduct, Gary Strange violated FINRA Rules 3240 and 2010.

2. Additionally, in order to fund one of the loans, Gary Strange made an unsuitable recommendation to JL that she liquidate her security holdings in a 401(k) plan account she held at the Firm. As a result, the Customers incurred at least \$43,790 in taxes and penalties. Accordingly, Gary Strange violated FINRA Rules 2111 and 2010.

3. Further, knowing that Gary Strange was not permitted to borrow from Firm customers and that he had been reprimanded and placed on heightened supervision, Laurie

Strange took steps to conceal the loans from the Firm and to create the false appearance that she was the only recipient of the loans. By virtue of this misconduct, Laurie Strange violated FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

4. Gary Strange entered the securities industry in March 1994 as a registered representative and has since been associated with several firms. Gary Strange was associated with the Firm from July 2002 through and until he voluntarily resigned in December 2015. After he resigned from Principal Securities, Gary Strange was associated with another FINRA-member broker-dealer from December 2015 through and until his termination in August 2016.

5. Gary Strange holds the following licenses: Series 6 (Investment Company and Variable Contracts Products Representative), Series 7 (General Securities Representative), Series 26 (Investment Company and Variable Contracts Products Principal), Series 63 (Uniform Securities Agent State) and Series 65 (Uniform Investment Adviser Law).

6. Although Gary Strange is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Respondent's registration with his last employing FINRA member firm, namely, September 9, 2016; and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

7. Laurie Strange entered the securities industry in May 2013 when she became associated with Principal Securities as a non-registered fingerprint only person. Laurie Strange was an associated person at Principal Securities until she voluntarily resigned in December 2015.

8. In December 2016, Laurie Strange obtained her Series 65 license (Uniform Investment Adviser Law).

9. From 2012 until at least April 2017, Laurie Strange was an IRS registered tax return preparer.

10. Although Laurie Strange is not currently registered or associated with a FINRA member, she remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the date upon which she ceased to be associated with a FINRA member, namely, December 18, 2015 and (2) the Complaint charges her with misconduct committed while she was associated with a FINRA member.

FACTUAL ALLEGATIONS

A. THE STRANGES FORM A CUSTOMER RELATIONSHIP WITH ML AND JL

11. Gary and Laurie Strange met ML and JL in or about August 2014.

12. In or about September 2014, Gary Strange recommended that ML and JL open a 401(k) account at the Firm for the small business they were starting. ML and JL told Gary Strange that JL was interested in accessing funds in a qualified domestic relations order ("QDRO")-account she held at another broker-dealer. However, JL had not reached the age at which she could take a distribution from the account without incurring significant taxes and penalties. Gary Strange recommended that ML and JL open the small business's 401(k) plan account at the Firm so that JL could transfer the funds from her QDRO-account to the 401(k) plan account, and then borrow funds against her 401(k) account interest.

13. In or about September 2014, the Customers filed Articles of Organization with the North Carolina Secretary of State to form their small business (the “L Business”).

14. In or about October 2014, Gary Strange helped ML establish a 401(k) plan for the L Business at Principal Securities. ML was designated as the primary security administrator and JL was designated as the secondary security administrator for the L Business 401(k) plan. Gary Strange was designated as the registered representative for the L Business 401(k) plan.

15. In or about December 2014, JL transferred approximately \$200,000 from her QDRO-account to the L Business 401(k) plan account at the Firm.

16. In or about January 2015, Gary Strange facilitated JL’s borrowing of \$50,000 from her L Business 401(k) plan account. Gary Strange understood from discussions with the Customers that they intended to use the \$50,000 loan to cover their living expenses. He also knew that the Customers had limited income at the time because neither ML nor JL was working full-time and because ML was recovering from a recent surgery.

B. THE FIRM’S SUPERVISION REGARDING BORROWING FROM CUSTOMERS

17. At all relevant times, Principal Securities maintained written supervisory policies and procedures which prohibited its registered representatives, like Gary Strange, from borrowing from Firm customers, unless: (a) the customer was acting in the capacity of an employee of a lending institution or was individually licensed as a lender and acting within that capacity as authorized by state or federal law; or (b) the customer was an immediate family member of the registered representative.

18. During December 2014, the Firm received a complaint from one of Gary Strange’s former customers, HB. Specifically, HB complained that Gary Strange had borrowed

money from him while he was a customer of the Firm and that Gary Strange had failed to repay the money he borrowed. The Firm investigated HB's complaint. In particular, on or about December 30, 2014, the Firm requested and received a written response from Gary Strange regarding HB's borrowing allegations. Gary Strange denied that he borrowed money from HB.

19. During August 2015, Gary Strange received a Letter of Reprimand from the Firm regarding his financial dealings with HB. In the Letter of Reprimand the Firm advised Gary Strange that it was issuing the reprimand, fining him \$1,000 and placing him on a heightened supervision plan for 12 months because he had accepted financial assistance from a Firm customer.

20. In the Letter of Reprimand, the Firm also stated that any failure by Gary Strange to follow the heightened supervision plan would result in further Firm disciplinary action and that any future concerns it had concerning Gary Strange's conduct could result in the Firm taking further action against him, including the termination of his registration with the Firm and of his contracts with the Firm's affiliates.

21. The Firm attached a Special Supervision Agreement to the Letter of Reprimand. Gary Strange and his supervisor signed the Special Supervision Agreement on or about August 20, 2015. The Special Supervision Agreement required Gary Strange's supervisor to conduct quarterly on-site audits of Gary Strange's offices and files and hold monthly discussions with Gary Strange regarding compliance-related issues and Gary Strange's business.

C. RESPONDENTS OBTAIN THE FIRST LOAN FROM THE CUSTOMERS

22. In or about June 2015, during the Firm's investigation into HB's complaint, Laurie Strange requested that JL and ML lend her and Gary Strange \$6,000 (the "First Loan")

because the Respondents needed additional funds to pay the rent for the property on which they lived together and jointly operated an Airbnb rental business for visitors. Thereafter, in furtherance of the loan arrangement, the Customers transferred \$6,000 from their bank account to a bank account in Laurie Strange's name.

23. Although the First Loan was obtained with his knowledge and consent, Gary Strange did not request or receive prior approval from Principal Securities for the First Loan. In fact, neither Gary nor Laurie Strange ever disclosed to Principal Securities that they had taken the First Loan from the Customers.

24. The Respondents used the First Loan proceeds to pay a portion of their rent.

25. The Respondents repaid the First Loan in or about October 2015.

D. RESPONDENTS OBTAIN THE SECOND LOAN FROM THE CUSTOMERS

26. In or about November 2015, approximately three months after the Firm issued its Letter of Reprimand to Gary Strange and placed him on heightened supervision, Respondents informed the Customers that they needed additional funds because they wanted to make a real estate purchase. Gary Strange recommended that the Customers liquidate JL's L Business 401(k) account to fund another loan (the "Second Loan") to the Respondents, in the amount of approximately \$150,000. At the time, all of the funds in JL's L Business 401(k) account were held in a Principal Securities target date fund (the "Target Date Fund").

27. Respondents promised ML and JL that they would repay the Second Loan.

28. In addition, Respondents promised to pay no later than April 2016 the taxes and penalties that ML and JL would incur for liquidating JL's 401(k) account, thereby allowing the Lowes to access JL's retirement funds without paying those taxes and penalties.

29. During November 2015, Respondents and the Customers agreed that the Customers would make the Second Loan to the Stranges by liquidating the funds in JL's L Business 401(k) account.

30. To facilitate the Second Loan, Gary Strange recommended that ML enter the web portal for the L Business 401(k) plan at Principal Securities and change JL's employment status to "terminated" within the portal. ML followed this direction and made this adjustment to the L Business profile at the Firm in or about mid-November 2015.

31. Additionally, in or about November 2015, Gary Strange instructed JL to open an IRA at another broker-dealer ("Broker-Dealer A"). In addition, Gary Strange recommended that JL liquidate her holdings in the Target Date Fund in order to roll the funds from the L Business 401(k) account to the new IRA at Broker-Dealer A. Gary Strange further instructed JL to then transfer the funds from the new IRA at Broker-Dealer A to Laurie Strange's bank account in order to fund the Second Loan. Gary Strange recommended these steps to prevent the Firm from detecting the Second Loan and to create the false appearance that Laurie Strange was the sole recipient of the Second Loan.

32. In addition, in or about November 2015, Laurie Strange took steps to prevent the Firm from detecting the Second Loan and to create the false appearance that she was the sole recipient of the Second Loan, by accompanying JL to the Broker-Dealer A's office to help JL open the IRA, pursuant to Gary Strange's instructions to JL.

33. In or about November 2015, JL opened the IRA at Broker-Dealer A.

34. Also in or about November 2015, at Gary Strange's recommendation, JL initiated a distribution of the entire balance of her L Business 401(k) account to the new Broker-Dealer A

IRA. On or about November 27, 2015, after Respondents and the Customers agreed that the Customers would make the Second Loan to the Stranges, Principal Securities transferred \$147,506.57 to JL's Broker-Dealer A IRA, such that the balance in JL's L Business 401(k) account was reduced to zero. At the time of the liquidation, Gary Strange knew that JL had not repaid most of the funds she had previously borrowed from her 401(k) account in January 2015, and that the transfer of funds to JL's Broker-Dealer A IRA was a taxable distribution.

35. On or about December 7, 2015, JL requested a wire transfer of \$147,506.57 from her Broker-Dealer A IRA to Laurie Strange's bank account in order to fund the Second Loan to the Respondents. The funds were transferred to Laurie Strange's bank account on December 7, 2015. The Respondents instructed JL to transmit the Second Loan funds to Laurie Strange's bank account to create the false appearance that Laurie Strange was the sole recipient of the Second Loan, even though it was intended to be and was used by both Respondents.

36. Gary Strange did not request or receive approval from Principal Securities for the Second Loan. Neither Gary nor Laurie Strange ever disclosed to Principal Securities that they had taken the Second Loan from the Customers.

37. The Customers did not act in the capacity of an employee of a lending institution and they were never individually licensed as a lender.

38. Additionally, neither JL nor ML is related to either Gary Strange or Laurie Strange.

39. In or about March 2016, the Respondents used approximately \$75,000 of the funds they obtained from the Second Loan to purchase real estate together.

40. On or about April 25, 2016, the Respondents used approximately \$50,000 of the funds they obtained from the Second Loan to make a down payment to purchase additional real estate together.

E. DESPITE THE CUSTOMERS' REQUESTS, RESPONDENTS HAVE NOT REPAID THE FULL AMOUNT BORROWED FROM THE CUSTOMERS

41. To date, the Respondents have repaid the Customers only \$6,000 of the Second Loan, despite the Customers' requests for payment in full. On or about December 8, 2015, the Respondents repaid the Customers \$5,000 in connection with Second Loan. In or about June 2016, the Respondents made an additional \$1,000 payment to the Customers as a partial repayment of the Second Loan.

42. The Customers incurred \$43,790 in taxes and penalties for the 2015 tax year (the "2015 Tax and Penalty") as a result of the 401(k) distribution Gary Strange recommended JL take from her 401(k) in order fund the Second Loan.

43. On or about May 4, 2016, at the Customers' request, the Respondents provided the Customers with a promissory note in connection with the Second Loan, which Laurie Strange signed. The promissory note stated that Laurie Strange would repay the Customers the remaining balance of the Second Loan (\$142,506), the 2015 Tax and Penalty and an amount "TBD," or to be determined, for any taxes and penalties for the 2016 tax year "in full at the earliest date possible." The promissory note provided that if the borrower defaulted, all amounts outstanding under the promissory would bear interest at 12% per annum from the date of demand until paid. The promissory note did not define default.

44. On or about June 21, 2016, the Customers requested that the Respondents pay them a portion of the 2015 Tax and Penalty, \$37,590, no later than June 26, 2016—the IRS

deadline for payment of the taxes and penalties. Respondents did not make any payment to the IRS or to the Customers in response to this request.

45. On or about June 27, 2016, an attorney representing the Customers sent a demand letter to the Respondents, requesting immediate payment of the remaining principal amount of the Second Loan and the 2015 Tax and Penalty, totaling \$185,296.

46. However, the Respondents have not repaid any portion of the 2015 Tax and Penalty or any additional taxes and penalties for the 2016 tax year.

47. On September 19, 2017, Principal Securities filed an Amendment to the Uniform Termination Notice for Securities Industry Registration (“Form U5”) for Gary Strange disclosing a \$55,000 settlement with the Customers.

FIRST CAUSE OF ACTION

(Unauthorized Borrowing from Customers – FINRA Rules 3240 and 2010)
(Gary Strange)

48. FINRA Rule 3240 prohibits registered persons from borrowing money from or lending money to any customer unless: (1) the representative’s employing firm has written procedures allowing borrowing from or lending to customers; (2) the borrowing or lending meets at least one of the conditions specified in Rule 3240(a)(2); and (3) the registered person notifies the firm of the borrowing or lending arrangement and obtains pre-approval in writing.

49. FINRA Rule 2010 provides that, “A member, in the conduct of [his] business, shall observe high standards of commercial honor and just and equitable principles of trade.” FINRA Rule 0140(a) states that “[p]ersons associated with a member shall have the same duties and obligations as a member under the Rules.”

50. Gary Strange borrowed a total of \$153,506.57 from ML and JL, who were his securities customers while he was associated with Principal Securities as a registered representative in 2015.

51. Although the loans were secured with his knowledge and consent, Gary Strange never provided Principal Securities with notice of either the First Loan or the Second Loan. Principal Securities never approved the First Loan or the Second Loan.

52. Gary Strange accepted both of the loans, despite the Firm's written procedures prohibiting them.

53. In addition, Gary Strange accepted the Second Loan less than four months after the Firm fined him, placed him on heightened supervision and issued him a Letter of Reprimand for obtaining financial assistance from another customer.

54. By virtue of the foregoing, Gary Strange violated FINRA Rules 3240 and 2010.

SECOND CAUSE OF ACTION
(Unsuitable Recommendation – FINRA Rules 2111 and 2010)
(Gary Strange)

55. FINRA Rule 2111 requires a registered representative to “have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer’s investment profile.”

56. FINRA Rule 2111 includes a non-exhaustive list of factors which determine a customer’s investment profile, including “the customer’s age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time

horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.”

57. Gary Strange’s recommendation to JL that she liquidate her security holdings in the Target Date Fund in order to make the Second Loan to the Respondents was unsuitable. Gary Strange did not have a reasonable basis to believe that the transaction was suitable for JL in light of her investment profile, including her financial situation.

58. Gary Strange’s recommendation was also unsuitable in light of JL’s tax status. Specifically, Gary Strange knew that JL could not take a distribution from her L Business 401(k) plan account without incurring significant taxes and penalties unless the distribution and the previous loan that the Customers had taken from the 401(k) were repaid in full within 60 days. As a result of Gary Strange’s recommendation to liquidate the securities in order to take the distribution and the Respondents’ failure to repay the Second Loan to the Customers, the Customers incurred taxes and penalties of at least \$43,790.

59. By reason of the foregoing, Gary Strange violated FINRA Rules 2111 and 2010.

Based on the foregoing, Respondent violated FINRA Rules 3240, 2111 and 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be:

- Suspended from association with any FINRA member in all capacities for two years;
- Fined \$20,000; and
- Ordered to pay, or demonstrate that Customers have received, restitution as identified in Attachment A hereto in the total amount of \$130,296, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from December 7, 2015 until the date of payment.

The fine shall be due and payable either immediately upon re-association with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

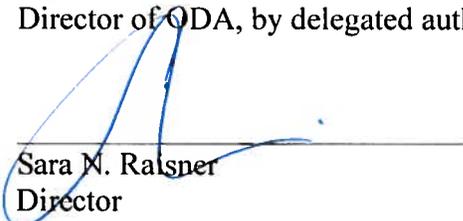
Restitution amounts ordered, pursuant to this disciplinary action, are due and payable immediately upon re-association with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies. If for any reason Respondent cannot locate any customer identified in Attachment A after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property, or abandoned property fund for the state in which the customer is last known to have resided.

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

SO ORDERED.

FINRA

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



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