

1 Karen L. Martinez (Utah Bar No. 7914)  
[martinezk@sec.gov](mailto:martinezk@sec.gov)  
2 Thomas M. Melton (Utah Bar No. 4999)  
[meltont@sec.gov](mailto:meltont@sec.gov)  
3 Jennifer Moore (New York Bar No. 3054301)  
[moorej@sec.gov](mailto:moorej@sec.gov)  
4 Paul Feindt (Utah Bar No. 8769)  
[feindtp@sec.gov](mailto:feindtp@sec.gov)  
5 Attorneys for Plaintiff  
Securities and Exchange Commission  
6 15 West South Temple, Suite 1800  
Salt Lake City, Utah 84101  
7 Telephone: (801) 524-5796  
Facsimile: (801) 524-5262

8 Local Counsel:

9 Karen Matteson (Cal. Bar No. 102103)  
[mattesonk@sec.gov](mailto:mattesonk@sec.gov)  
10 Securities and Exchange Commission  
5670 Wilshire Boulevard, 11th Floor  
11 Los Angeles, California 90036-3648  
Telephone: (323) 965-3840  
12 Facsimile: (323) 965-3908

13 **UNITED STATES DISTRICT COURT**  
14 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**  
15 **EASTERN DIVISION**

16 \_\_\_\_\_  
17 SECURITIES AND EXCHANGE  
COMMISSION,

18 Plaintiff,

19 vs.

20  
21 KEDERIO AINSWORTH, GUILLERMO  
22 HARO, JESUS GUTIERREZ,  
GABRIEL PAREDES, and ANGEL  
23 ROMO,

24 Defendants.

**COMPLAINT**

**CASE NO: EDCV 08-1350**

25 \_\_\_\_\_  
26 Plaintiff, Securities and Exchange Commission (the  
27 "Commission"), alleges as follows:

**JURISDICTION AND VENUE**

1  
2 1. This Court has jurisdiction over this action  
3 pursuant to Sections 20(b), 20(d)(1) and 22(a) of  
4 the Securities Act of 1933 ("Securities Act"), 15  
5 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), and Sections  
6 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the  
7 Securities Exchange Act of 1934 ("Exchange Act"),  
8 15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e) &  
9 78aa. Defendants have, directly or indirectly,  
10 made use of the means or instrumentalities of  
11 interstate commerce, of the mails, or of the  
12 facilities of a national securities exchange, in  
13 connection with the transactions, acts, practices  
14 and courses of business alleged in this Complaint.

15 2. Venue is proper in this district pursuant to  
16 Section 22(a) of the Securities Act, 15 U.S.C. §  
17 77v(a), and Section 27 of the Exchange Act, 15  
18 U.S.C. § 78aa, because certain of the transactions,  
19 acts, practices and courses of conduct constituting  
20 violations of the federal securities laws occurred  
21 within this district.

**SUMMARY**

22  
23 3. Throughout 2005 through 2007, defendants, five  
24 registered representatives affiliated with World  
25 Group Securities ("WGS"), a broker-dealer  
26 registered with the Commission, fraudulently sold  
27

1 unsuitable securities, primarily variable universal  
2 life policies ("VUL"), financed through adjustable  
3 rate sub-prime mortgage refinancing. The  
4 refinancing generated two sources of funds: short  
5 term savings in the difference between the old  
6 mortgage payment and the new mortgage payment, and  
7 equity removed from the investors' homes.

8 Investors lacked the funds necessary to purchase  
9 the securities recommended by defendants absent the  
10 refinancing and lacked the funds necessary to  
11 continue to pay for the securities once their  
12 mortgage rates adjusted. Most customers had little  
13 formal education beyond high school, were primarily  
14 lower-income, had little prior investment  
15 experience and many did not speak English fluently,  
16 if at all.

17 4. Defendants used a mortgage company controlled by  
18 WGS registered representatives which operated from  
19 the same office location as WGS and was supervised  
20 by the WGS branch office manager to facilitate the  
21 refinancing necessary to allow customers to  
22 purchase securities defendants recommended.

23 5. Defendants sold the refinancing and securities by  
24 misrepresenting the terms of the mortgages,  
25 misrepresenting the nature of the securities and  
26 recommending unsuitable investments to customers.

1 6. Based on this conduct defendants violated Section  
2 17(a) of the Securities Act and Section 10(b) of  
3 the Exchange Act and Rule 10b-5 thereunder.  
4 Defendants also aided and abetted WGS's violation  
5 of Section 17(a) of the Exchange Act and Rules 17a-  
6 3(a), 17a-3(a)(6) and 17a-3(a)(17) thereunder.

7 **DEFENDANTS AND RELATED ENTITIES**

8 7. **World Group Securities, Inc. ("WGS")** is a Delaware  
9 corporation, headquartered in Duluth, Georgia. WGS  
10 has been registered as a broker-dealer with the  
11 Commission and a member of the Financial Industry  
12 Regulatory Authority ("FINRA") since January 23,  
13 2002. WGS is subsidiary of AEGON Asset Management  
14 Services, Inc. which is owned by AEGON, NV, a  
15 diversified multinational insurance and financial  
16 services holding company based in the Netherlands.  
17 VULs and variable annuities make up approximately  
18 90-95% of WGS' product sales. WGS has approximately  
19 565 registered branch offices throughout the United  
20 States with around 5,600 registered  
21 representatives.

22 8. **World Financial Group ("WFG")** is a subsidiary of  
23 AEGON Asset Management Services, Inc. WFG acts as  
24 the marketing arm for WGS and is structured as a  
25 multi-level marketing company. Commissions are  
26 typically spread over multiple marketing levels  
27

1 with registered representatives who are more senior  
2 taking a larger percentage of commissions than  
3 registered representatives who are more junior in  
4 the marketing structure. In order to become a WGS  
5 registered representative, an individual must first  
6 become a WFG associate. Compensation relating to  
7 securities sold through WGS is paid to the  
8 registered representative through WFG.

9 9. **AEGON, NV ("AEGON")** is a diversified multinational  
10 insurance and financial services holding company  
11 based in the Netherlands. WGS is among a group of  
12 affiliated companies under AEGON which also  
13 includes WFG, Western Reserve Life Assurance of  
14 Ohio ("WRL"), which issues VUL policies and  
15 variable annuities, Innergy Lending, Inc., a  
16 mortgage company, InterSecurities, Inc., a broker-  
17 dealer registered with the Commission, and  
18 Transamerica Asset Management, Inc., a registered  
19 investment adviser.

20 10. **Ainsworth Financial Mortgage Corporation**

21 **("Ainsworth Mortgage")** is a mortgage company  
22 headquartered in Rancho Cucamonga, California with  
23 branch offices in Pomona, Ontario, and Long Beach,  
24 California. Ainsworth Mortgage was formed in  
25 January 2004 and became a WFG Affiliate Broker in  
26 March 2004. In order to qualify as a WFG affiliate  
27

1 broker, a company must agree to pay 25% of all  
2 commissions received to WFG. WGS and WFG required  
3 that all mortgage business conducted by WFG  
4 associates to be conducted through an affiliate  
5 broker.

6 11. **Guillermo Haro ("Haro")**, a resident of Glendora,  
7 California, began working as a registered  
8 representative for WMA Securities, Inc. in April  
9 1999 and became associated with WGS when it  
10 purchased WMA in 2002. Haro became a WFG associate  
11 in June 2001 and is currently a senior vice  
12 chairman at WFG. Haro is also a senior loan  
13 officer and branch manager of the Pomona Branch of  
14 Ainsworth Mortgage, which shares office space with  
15 WFG and WGS. During the period of time covered by  
16 this Complaint, Haro served as the branch manager  
17 of the WGS Pomona branch office.

18 12. **Kederio Ainsworth ("Ainsworth")**, of Fontana,  
19 California, is the branch manager of Ainsworth  
20 Mortgage's Rancho Cucamonga office. He received a  
21 real estate license in 2001 and a real estate  
22 broker's license in 2003. Ainsworth became a WFG  
23 associate in June 2002 and a registered  
24 representative affiliated with WGS in October 2002.  
25 He worked from the Rancho Cucamonga office of WGS.

26 13. **Jesus Gutierrez ("Gutierrez")** is a resident of  
27

1 Downey, California. He became a WFG associate in  
2 October 2003 and has been a WGS registered  
3 representative since February 2004 affiliated with  
4 the Pomona office. Gutierrez is also a loan  
5 officer with Ainsworth Mortgage and supervises the  
6 City of Commerce, California office.

7 14. **Gabriel Paredes ("Paredes")** resides in Upland,  
8 California. Paredes became a WFG associate in July  
9 2004 and is a qualified marketing director with  
10 WFG. Paredes became a registered representative  
11 affiliated with WGS in its Pomona office in October  
12 2004. Paredes is the branch manager of the  
13 Ainsworth Mortgage office in Ontario, California.

14 15. **Angel Romo ("Romo")** resides in Montebello,  
15 California. Romo began working for WFG as an  
16 associate in March 2004 and joined WGS as a  
17 registered representative in May 2004. Romo works  
18 from the City of Commerce office of WGS. Romo is a  
19 qualified marketing director with WFG and a senior  
20 loan officer with Ainsworth Mortgage.

21 **BACKGROUND**

22 16. Defendants fraudulently sold unsuitable securities  
23 to their customers financed by sub-prime mortgage  
24 refinancing.

25 17. Defendants solicited customers to refinance their  
26 homes through Ainsworth Mortgage into less than  
27 interest only adjustable rate mortgages.

1 Defendants recommended customers use the proceeds  
2 from the refinancing to purchase unsuitable  
3 securities.

4 18. Defendants knew or reasonably believed that the  
5 securities they recommended were unsuitable to the  
6 investors' needs and failed to disclose that fact  
7 to investors.

8 19. The refinancing was done to create a stream of  
9 available cash in the form of the difference  
10 between the old mortgage payment and the new, lower  
11 mortgage payment which could be invested in  
12 securities sold by WGS and would require monthly  
13 payments, primarily, in variable universal life  
14 policies ("VUL").

15 20. VUL policies are hybrid investments containing both  
16 securities and insurance features. VUL policies  
17 are life insurance policies that offer a death  
18 benefit to a designated beneficiary combined with  
19 an investment in the securities markets. Amounts  
20 paid into the VUL beyond the cost of insurance and  
21 fees are placed into sub-accounts that are invested  
22 into a range of securities funds. The sub-accounts  
23 are subject to market risk and build value based  
24 upon the performance of the customers' investment  
25 choices.

26 21. Defendants also induced customers to take equity  
27 out of their homes during the refinancing and



1 invest the cash into securities products, again  
2 primarily VUL policies.

3 22. Defendants Ainsworth, Gutierrez, Paredes, and Romo  
4 falsified customer account forms, and all  
5 defendants prepared order tickets that contained  
6 information they knew was inaccurate.

7 23. Investors lacked the funds necessary to purchase  
8 the securities recommended by defendants absent the  
9 refinancing. Customers were unsophisticated and  
10 had little understanding of the mortgage products  
11 or securities sold to them.

12 24. Most customers had little formal education beyond  
13 high school, were primarily lower-income and had no  
14 prior investment experience. Some did not speak  
15 English fluently, if at all. Although some  
16 defendants spoke Spanish, all paperwork for both  
17 the securities transactions and the mortgage  
18 transactions was printed in English.

19 25. WGS required that the registered representatives  
20 conduct any mortgage business through a WFG-  
21 affiliated mortgage broker. Ainsworth Mortgage was  
22 the affiliated mortgage broker for the Pomona  
23 office, and each refinance that is subject to this  
24 Complaint was accomplished through Ainsworth  
25 Mortgage.

26 26. Ainsworth Mortgage is owned by Keysha Ainsworth,  
27 Ainsworth's sister, and WGS registered

1 representatives controlled its operations.

2 Ainsworth is the broker of record for Ainsworth  
3 Mortgage. It operated from the same offices as  
4 WGS, and Haro supervised its Pomona operations.

5 27. Defendants marketed their services under the name  
6 WFG, promoting it as a full service financial  
7 company that enabled the same registered  
8 representative to service all the mortgage,  
9 insurance, and investment needs of his or her  
10 customers. Defendants functioned as both the  
11 registered representative on the securities  
12 transactions as well as the loan officer on the  
13 mortgage refinancing that funded the securities  
14 purchases.

15 28. Defendants sold the mortgage products and  
16 securities by misrepresenting the terms of the  
17 mortgage, misrepresenting the nature of the  
18 securities product and recommending unsuitable  
19 investments to customers.

20 **STRUCTURE AND PAYOUT**

21 29. All WGS registered representatives must first  
22 become associates of WFG. In order to become a WFG  
23 associate, an individual must attend a recruiting  
24 meeting and pay a \$199 fee. After the fee is paid,  
25 the individual receives a WFG associate number  
26 which is then used to track any sales made by the  
27 individual.

1 30. Because WFG is structured in a similar fashion to a  
2 multi-level-marketing company, when a WFG associate  
3 or WGS registered representative recruits an  
4 associate, that recruit is placed in the recruiting  
5 associate's "downline." A portion of revenue  
6 generated by any WFG associate is shared with his  
7 "upline" hierarchy. An associate's level of  
8 compensation and his promotion is impacted by  
9 points generated by both himself and anyone in his  
10 downline.

11 31. WFG associates receive points for any commissions  
12 earned for sales of financial products including  
13 mortgage originations; WFG associates who are also  
14 WGS registered representatives receive WFG points  
15 for any commissions they generate from sales of  
16 securities, such as VULs, effected through WGS.  
17 The points earned correspond to the dollar amount  
18 of the commission received for any given product.  
19 Mortgages and VUL sales generate the highest  
20 commissions and therefore the most points.

21 32. Western Reserve Life ("WRL") pays WGS a commission  
22 of 108.08% of the first year premiums from a VUL  
23 policy. This amount is then paid to registered  
24 representatives and their hierarchy based on the  
25 registered representatives' payout rate.

26 33. Payout rates begin at 25% and increase to 65%,  
27 depending on the registered representatives' WFG

1 title. Points earned from sales of mortgages,  
2 insurance products or securities are used to  
3 determine promotions throughout the WFG multi-level  
4 marketing hierarchy; any promotion will increase  
5 the associates' payout rate both for sales of non-  
6 securities products through WFG and for securities  
7 business done through WGS. WRL was the underwriter  
8 on all VULs sold by defendants that are the subject  
9 of this Complaint.

10 34. In order for a WFG associate or WGS registered  
11 representative to earn points for mortgage  
12 business, WFG and WGS required the use of an  
13 approved mortgage broker which is part of the  
14 affiliate broker program.

15 35. In order to qualify as an affiliate broker and  
16 therefore be approved by WGS, the mortgage company  
17 must agree to pay WFG 25% of all commissionable  
18 revenue. Commissionable revenue consists of  
19 origination fees, yield spread premiums, and loan  
20 discount fees retained. Of the remaining 75% of  
21 the commissionable revenue, the registered  
22 representative would receive 50% and the affiliated  
23 broker would keep 25%.

24 36. In March 2004, Ainsworth Mortgage became an  
25 approved WGS/WFG affiliate broker. As such,  
26 Ainsworth Mortgage paid 25% of its commissionable  
27 revenue to WFG in exchange for the origination of

1 any mortgages by WFG associates and WGS registered  
2 representatives.

3 37. All WGS registered representatives and WFG  
4 associates in Pomona were required by WGS to use  
5 Ainsworth Mortgage for any mortgage activity.  
6 Ainsworth Mortgage reported all commissions earned  
7 by WFG associates and WGS registered  
8 representatives to WFG. Each refinance that is  
9 subject to this Complaint was conducted through  
10 Ainsworth Mortgage.

11 38. WFG assigned points to each WFG associate or WGS  
12 registered representative based on the revenue  
13 generated. The points that a WGS registered  
14 representative received from WFG affected the  
15 payout rate to the registered representative on  
16 commissions from sales of securities products; thus  
17 the more mortgages a representative sold, the  
18 higher his commission payout on sales of  
19 securities.

20 **HARO TRAINS REGISTERED REPRESENTATIVES TO**  
21 **RECOMMEND UNSUITABLE SECURITIES**

22 39. Haro was the branch office manager of the Pomona,  
23 California WGS branch office and served in that  
24 capacity until May 2007.

25 40. Haro trained new WFG associates by taking them into  
26 the field with him for customer appointments and  
27 sales presentations. Although not yet registered  
representatives, the new associates accompanied

1 Haro to learn how to present products and services  
2 to customers.

3 41. Haro trained both WGS registered representatives  
4 and WFG associates who worked in the Pomona office  
5 to recommend that their customers purchase  
6 securities with the purchase funded through  
7 refinancing their home mortgages.

8 42. Haro trained registered representatives in the  
9 Pomona branch office that there were two methods of  
10 obtaining funds to invest through a refinance, (1)  
11 the customer could refinance his mortgage to an  
12 interest-only or negative amortization loan, taking  
13 cash out through the refinancing which could be  
14 used to buy securities or (2) the customer could  
15 refinance his mortgage to an interest only or a  
16 negative amortization loan, thereby reducing his  
17 monthly payment, and use the monthly savings to  
18 make monthly payments on securities. In both  
19 situations, the customer would use cash generated  
20 by refinancing a mortgage to fund securities  
21 purchases, the only difference being whether a  
22 customer purchased a front-loaded securities  
23 purchase or made a monthly payment toward the  
24 purchase of securities.

25 43. While serving as branch office manager for WGS,  
26 Haro was solely responsible for the supervision of  
27 between 220 and 250 WGS registered representatives

1 in the Pomona office. His supervisory duties  
2 included reviewing and approving all securities  
3 transactions for suitability. In addition to  
4 supervising WGS employees, Haro supervised another  
5 100 to 200 WFG associates in Pomona. He was  
6 responsible, in large part, for training new WFG  
7 associates and running the twice weekly meetings  
8 all WFG associates were required to attend.

9 44. Haro also acted as the branch manager of Ainsworth  
10 Mortgage's Pomona office during the period of the  
11 conduct described herein and in that capacity  
12 reviewed and approved all mortgage transactions for  
13 all loan officers in Pomona.

14 **DEFENDANTS RECOMMEND UNSUITABLE**  
15 **SECURITIES TO CUSTOMERS**

16 45. Defendants recommended negative amortization loans  
17 to their customers for the purported purpose of  
18 increasing the amount of customers' discretionary  
19 income. Defendants placed customers in negative  
20 amortization loans with adjustable interest rates  
21 that could reset from the low introductory rate  
22 after only a month. After a short period of time,  
23 customers frequently saw their mortgage payment  
24 increase substantially.

25 46. The customers were often not aware that the  
26 interest rate on their new loans was adjustable.  
27 When the payments increased and the customer

1 attempted to refinance into a lower rate, the  
2 customer learned that he or she would incur  
3 significant prepayment penalties. In most  
4 circumstances, customers had to hold the mortgage  
5 for three years to avoid the prepayment penalty.  
6 Customers had not been told about the prepayment  
7 penalty in most situations.

8 47. In the situations where the customer made the  
9 minimum mortgage payment, the monthly payment on  
10 the mortgage was not enough to cover the monthly  
11 interest charges. Consequently, customers  
12 eventually learned that, despite making monthly  
13 payments, their principal balance increased each  
14 month. In effect, customers were effectively  
15 withdrawing home equity on a monthly basis to  
16 purchase securities recommended by defendants.  
17 Where customers took a lump sum of cash from their  
18 refinancing, the customers used home equity to  
19 purchase securities recommended by defendants.

20 48. Defendants told customers that by lowering their  
21 monthly mortgage payments, they would increase  
22 discretionary monthly income to invest. Defendants  
23 claimed that by investing in a VUL, customers would  
24 earn interest, rather than using the money to pay  
25 the principal on their mortgages, which would only  
26 benefit the bank or mortgage company.

27 49. By investing in a VUL, defendants claimed the



1 customer's money would work for him rather than for  
2 the bank. Defendants then advised the customers to  
3 purchase VULs, which were falsely represented as  
4 generating a 12% annual return.

5 50. VUL policies are considered long-term investments  
6 due to the amount of time it takes to build cash  
7 value. Because VUL policies also impose  
8 substantial surrender charges, a VUL policy  
9 surrendered in the first ten years after purchase  
10 would be unlikely to have sufficient surrender  
11 value to allow the customer to break-even.

12 51. The risk that the investor will need to surrender  
13 the policy greatly increases if he or she uses the  
14 monthly savings from refinancing a mortgage through  
15 an adjustable rate loan to fund the VUL. The  
16 negative amortization adjustable rate mortgages  
17 taken out by WGS customers have interest rates that  
18 can be adjusted after one month. Defendants knew  
19 or were reckless in not knowing that the customers'  
20 mortgage payments would increase.

21 52. Defendants knew or were reckless in not knowing  
22 that any increase in the mortgage payments would  
23 impact the ability of the mortgagor to make the  
24 payments on his or her VUL policy. If the interest  
25 rate on the mortgage adjusts upward, the investor  
26 will lose the savings in his or her mortgage  
27 payment that were used to fund the purchase of the

1 VUL, thereby increasing the likelihood he or she  
2 will need to surrender the VUL. Defendants failed  
3 to disclose this risk to customers.

4 53. Once the mortgage rate adjusted upward, the  
5 customers described in detail below could no longer  
6 afford the payments on the VULs and, as a result  
7 their policies lapsed and the individuals lost  
8 their investment.

9 54. Defendants also failed to explain to customers the  
10 surrender fees and the fees relating to the VULs at  
11 the time the VULs were sold. The complexity of VUL  
12 products makes it difficult for investors to  
13 estimate the costs of insurance and other  
14 administrative charges. The disclosures of those  
15 costs and fees were inadequate to allow an  
16 unsophisticated investor, such as defendants'  
17 customers, to know what level of premium is  
18 necessary to keep the policy in effect over time.

19 55. The sales commissions on a VUL are substantially  
20 higher than the commissions earned on a mutual fund  
21 or term life insurance policy, which in turn  
22 generated higher commissions for defendants.

23 56. Although defendants provided customers with a  
24 prospectus, defendants' affirmative  
25 misrepresentations combined with the customers lack  
26 of sophistication prevented the customer from  
27 understanding the nature of the product sold and

1 the fees and risks associated with such a product.

2 57. Defendants frequently misrepresented the substance  
3 of a VUL to customers by describing it as a savings  
4 plan, a retirement plan, or a college savings plan.  
5 Such descriptions are misleading when the  
6 explanation excludes the fact that the VUL is first  
7 a long-term whole life insurance product requiring  
8 premium payments for roughly ten years in order to  
9 build cash value.

10 58. The VUL was not suitable for defendants' customers.  
11 It did not match the investors' objectives. The  
12 net worth and income of the customers did not  
13 warrant the purchase of the VUL, in light of the  
14 relatively high insurance costs and fees generated  
15 by the VUL.

16 59. WGS' Written Supervisory Procedures state that a  
17 registered representative "may not recommend to a  
18 client that he take out a policy loan, home equity  
19 line of credit, or any other loan to pay for a  
20 securities purchase."

21 60. Defendants did not disclose to investors that their  
22 recommendations to refinance and use borrowed funds  
23 to purchase VULs were contrary to WGS' Written  
24 Supervisory Procedures.

25 61. In addition to the investors described in detail  
26 below, defendants recommended refinancing and using  
27 the proceeds from the refinancing to purchase

1           unsuitable VULs to approximately 28 other  
2           individuals.

3           **GUILLERMO HARO**

4           **Investor Maria Herrera**

5           62. In or about October 2006, Haro met with investor  
6           Maria Herrera ("Herrera"). Herrera is 62 and lives  
7           in Moreno Valley, California. Herrera is married  
8           with three adult children. Herrera is not  
9           employed. Her husband, Alfonso, works in the  
10          shipping and receiving department of a company  
11          called Valspar. Herrera and her husband have a  
12          fifth and sixth grade education, respectively, from  
13          Mexico. Neither speaks English. Herrera has no  
14          investment experience, no life insurance, and no  
15          assets other than her home. Herrera provided her  
16          financial information to Haro.

17          63. Haro encouraged Herrera to refinance her home and  
18          use the proceeds to purchase a VUL. Herrera closed  
19          her mortgage loan on October 30, 2006, and received  
20          a check for \$26,226 for the equity she removed.  
21          Haro did not tell Herrera that he placed Herrera in  
22          a negative amortization loan, and that by making  
23          the minimum monthly payment, her loan balance would  
24          increase every month.

25          64. On November 5, 2006, Herrera purchased a VUL,  
26          naming both her and her husband as insured.  
27          Herrera made an initial payment of \$2,000, with

1 monthly premium payments to be \$450. Haro  
2 completed the Client Account Form and told Herrera  
3 that she would be saving \$700 per month in  
4 different investments. Haro did not explain what  
5 any of those investments were.

6 65. Herrera did not understand what a VUL was, nor its  
7 purpose. Based on representations by Haro, Herrera  
8 believed she was contributing \$450 per month for  
9 life insurance, \$150 for marketing, which she  
10 believes is similar to savings based on what Haro  
11 told her, and \$100 per month for stocks.

12 66. Haro did not disclose to Herrera that her VUL had  
13 monthly fees and expenses.

14 67. The VUL was not a suitable investment for Herrera.  
15 Haro had no basis to reasonably believe that the  
16 VUL was suitable based on Herrera's financial  
17 needs, objectives, and circumstances.

18 68. Haro knew or reasonably believed the VUL was  
19 unsuited to Herrera's needs and failed to disclose  
20 this fact to Herrera.

21 69. Haro told Herrera that her "savings" would always  
22 earn 12% and could not decrease in value. That  
23 statement is false.

24 70. Haro's misrepresentations and omissions regarding  
25 the refinances and the VUL were material.

26 71. Haro's misrepresentations and omissions regarding  
27 the refinances and the VUL were made with scienter.

**Investor Cynthia Parker**

1  
2 72. In or around April or early May 2006, Haro met with  
3 investor Cynthia Parker ("Parker"). Parker is 34  
4 years old and lives in Corona, California. Parker  
5 is married with two children. Parker is a real  
6 estate agent with Prudential Realty. She has no  
7 education beyond high school. Her only investment  
8 experience is a 401(k) account with her employer.  
9 Parker does not own life insurance, but her husband  
10 has life insurance through his job with the L.A.  
11 County Sheriff's Department. Parker provided her  
12 financial information to Haro.

13 73. Haro recommended that the Parkers increase their  
14 life insurance and open a savings account for their  
15 young son that could be used at age eighteen for  
16 his college education. Parker understood the  
17 recommendation regarding her son to be a type of  
18 college savings plan investment with life insurance  
19 included. Haro also recommended that Parker  
20 refinance her house and pull out home equity to  
21 invest. Parker did not refinance her home.

22 74. On May 3, 2006, Parker purchased three VULs: one  
23 for herself, one for her husband, and one for her  
24 two-year-old son. The face value of the VUL for  
25 Parker's son was \$250,000, with a monthly premium  
26 of \$100.

27 75. The VULs were not suitable investments for Parker.

1 Haro had no basis to reasonably believe that the  
2 VULs were suitable based on Parker's financial  
3 needs, objectives, and circumstances.

4 76. Haro knew or reasonably believed that the VUL was  
5 unsuited to Parker's needs and failed to disclose  
6 this fact to Parker.

7 77. Haro did not disclose the monthly fees and expenses  
8 of the VUL to Parker. Haro also failed to disclose  
9 the monthly cost of insurance. Parker believed  
10 that the full \$100 she placed in her son's account  
11 was being invested. Parker first discovered the  
12 fees, expenses, and cost of insurance when she  
13 received her year-end statement.

14 78. Haro also told Parker that her investment could not  
15 decrease in value. That statement is false.

16 79. Haro's misrepresentations and omissions regarding  
17 the VUL were material.

18 80. Haro's misrepresentations and omissions regarding  
19 the VUL were made with scienter.

20 **KEDERIO AINSWORTH**

21 **Investor Desiray Johnson**

22 81. During the summer of 2006, Ainsworth met with  
23 investor Desiray Johnson ("Johnson"). Johnson is  
24 53 years old and lives in Rialto, California.  
25 Johnson is employed by Job Corps Inland Empire to  
26 assist children in developing life skills. Johnson  
27 also works at Dee Dee's Discount Clothing Store,

1 and runs her own catering business. Johnson is  
2 married with one minor child and one adult child.  
3 Her husband is a senior window washer for the Los  
4 Angeles Unified School District. Johnson has an  
5 associate's degree in business administration and a  
6 certified nursing assistant license. Johnson has a  
7 \$100,000 life insurance policy through Job Corps  
8 Inland Empire and a 401(k) plan. Her husband also  
9 has life insurance through work and contributes to  
10 the California Public Employees' Retirement System  
11 (CalPERS). Johnson provided her financial  
12 information to Ainsworth.

13 82. Ainsworth told Johnson he could help her with her  
14 mortgage by lowering her interest rate through a  
15 refinance. At the time, Johnson had a fixed rate  
16 mortgage with an interest rate of approximately  
17 10%. Johnson followed Ainsworth's advice and  
18 refinanced her mortgage on January 24, 2006.

19 83. On March 16, 2006, Johnson purchased a VUL from  
20 Ainsworth using the cash available resulting from  
21 her refinance which resulted in a lower mortgage  
22 payment for Johnson. Based on representations by  
23 Ainsworth, Johnson believes she purchased a term  
24 life insurance policy from Ainsworth. Johnson in  
25 fact purchased a VUL from Ainsworth.

26 84. The VUL was not a suitable investment for Johnson.  
27 Ainsworth had no basis to reasonably believe that



1 the VUL was suitable based on Johnson's financial  
2 needs, objectives, and circumstances.

3 85. Ainsworth knew or reasonably believed that the VUL  
4 was unsuited to Johnson's needs and failed to  
5 disclose this fact to Johnson.

6 86. When Johnson met with Ainsworth to sign the  
7 paperwork for her VUL, Ainsworth requested that  
8 Johnson sign a blank WGS Client Account Form.  
9 Ainsworth told Johnson that he would meet with her  
10 at a later date to explain the documents.  
11 Ainsworth never met with Johnson after she signed  
12 the paperwork for the refinance and the VUL.

13 87. Ainsworth filled out both the risk profile and  
14 financial profile section of the WGS Client Account  
15 Form with inaccurate information without discussing  
16 those items with Johnson.

17 88. Ainsworth did not disclose to Johnson that her VUL  
18 had investment sub-accounts. Ainsworth never  
19 disclosed to Johnson her account could decrease in  
20 value.

21 89. Ainsworth never explained to Johnson that she was  
22 placed in a negative amortization loan or that by  
23 making the less than interest only payment on her  
24 mortgage, Johnson's principal balance would  
25 increase each month. Johnson believed her monthly  
26 mortgage payment included both principal and  
27 interest.

1 90. Ainsworth's misrepresentations and omissions  
2 regarding the VUL and refinances were material.

3 91. Ainsworth's misrepresentations and omissions  
4 regarding the VUL and refinances were made with  
5 scienter.

6 **Investor Juan Carlos Cisneros**

7 92. In or around June 2006, Ainsworth met with investor  
8 Juan Carlos Cisneros ("Cisneros"). Cisneros is 43  
9 years old and lives in Bell Gardens, California.  
10 He is married with three children. Cisneros is a  
11 mechanic, and owner of a 99 Cent Store. Cisneros  
12 was educated through the equivalent of junior high  
13 in Mexico. Cisneros does not have a retirement  
14 account, insurance, or any investment experience.  
15 He is a native Spanish speaker and speaks virtually  
16 no English. Cisneros provided his financial  
17 information to Ainsworth.

18 93. Ainsworth recommended Cisneros refinance his  
19 mortgage. Although Cisneros understood very little  
20 of what Ainsworth told him, Cisneros closed his  
21 refinance on June 5, 2006, removing \$77,286 of  
22 equity from his home.

23 94. Based on what he was told by Ainsworth, Cisneros  
24 believed he was getting a fixed rate mortgage.  
25 Ainsworth did not disclose to Cisneros he had been  
26 placed in a negative amortization adjustable rate  
27 mortgage and that by making the minimum payment his

1 outstanding balance would increase every month.  
2 Cisneros believed that his monthly payment would  
3 cover both principal and interest. Ainsworth also  
4 failed to disclose that the mortgage loan had a  
5 prepayment penalty.

6 95. On July 6, 2006, on Ainsworth's recommendation  
7 Cisneros purchased a VUL. Cisneros did not  
8 understand what he had purchased from Ainsworth  
9 other than it was a form of life insurance.

10 96. The VUL was not a suitable investment for Cisneros.  
11 Ainsworth had no basis to reasonably believe that  
12 the VUL was suitable based on Cisneros' financial  
13 needs, objectives, and circumstances.

14 97. Ainsworth knew or reasonably believed that the VUL  
15 was unsuited to Cisneros' needs and failed to  
16 disclose that fact to Cisneros.

17 98. Ainsworth's misrepresentations and omissions  
18 regarding the refinancing and VUL were material.

19 99. Ainsworth's misrepresentations and omissions  
20 regarding the refinancing and VUL were made with  
21 scienter.

22 **Investor Rogelio Alvarado**

23 100. In early 2007, Ainsworth met with investor Rogelio  
24 Alvarado ("Alvarado"). Alvarado is 48 years old and  
25 lives in Fontana, California. He is married with  
26 two children ages 16 and 24. Alvarado works in the  
27 construction industry, moving between jobs

1 frequently. Alvarado and his wife received  
2 education through the sixth grade in Mexico.  
3 Alvarado does not have any investment experience.  
4 Alvarado's income was roughly \$4,800 per month at  
5 the time he met with Ainsworth. Alvarado provided  
6 his financial information to Ainsworth.

7 101. Ainsworth recommended that Alvarado remove \$20,000  
8 of his home equity and purchase a mutual fund and a  
9 VUL. On February 15, 2007, Alvarado purchased a  
10 WRL Freedom Elite Builder II VUL with an initial  
11 investment of \$10,250.

12 102. Ainsworth told Alvarado he could pay the next  
13 couple of year's \$10,250 premium for the VUL with  
14 the savings from the lower monthly payment on his  
15 house by refinancing into the Option ARM. Based on  
16 Ainsworth's recommendation, Alvarado refinanced his  
17 mortgage.

18 103. Ainsworth explained to Alvarado that the VUL is  
19 like a savings account that would earn a higher  
20 interest rate, and after a couple of years the  
21 policy would make enough money to pay for itself.  
22 This information is false and misleading.

23 104. The VUL was not a suitable investment for Alvarado.  
24 Ainsworth had no basis to reasonably believe that  
25 the VUL was suitable based on Alvarado's financial  
26 needs, objectives, and circumstances.

27 105. Ainsworth knew or reasonably believed that the VUL

1 was unsuited to Alvarado's needs and failed to  
2 disclose that fact to Cisneros.

3 106. Ainsworth's misrepresentations and omissions  
4 regarding the refinancing and VUL were material.

5 107. Ainsworth's misrepresentations and omissions  
6 regarding the refinancing and VUL were made with  
7 scienter.

8 108. Ainsworth completed Alvarado's Client Account Form  
9 with inaccurate information. The Client Account  
10 Form lists \$2,000 per month of discretionary  
11 income. The information is not correct.

12 **JESUS GUTIERREZ**

13 **Investor Abel Renteria**

14 109. In or about March 2006, defendant Gutierrez met  
15 with investor Abel Renteria ("Renteria"). Renteria  
16 is 36 years old and lives in Whittier, California.  
17 Renteria is married with three children. Renteria  
18 is a grocery store warehouse supervisor. His wife  
19 is a special education assistant with the Los  
20 Angeles Unified School District. Renteria has a  
21 high school diploma and attended two years of  
22 college. His investment experience consists of his  
23 401(k) account through work, and a \$250 account  
24 with ING. Renteria has a \$10,000 term life  
25 insurance policy through work with the ability to  
26 increase the face amount for a small fee. Renteria  
27 also owned a \$250,000 whole life policy at the time

1 he met with Gutierrez which he later surrendered  
2 after purchasing a VUL on Gutierrez's  
3 recommendation. Renteria provided his financial  
4 information to Gutierrez.

5 110. Gutierrez recommended that Renteria refinance his  
6 home because Renteria wasn't making any money on  
7 his mortgage. Gutierrez explained that by lowering  
8 his monthly mortgage payment, Renteria would have  
9 money to invest. Renteria had a 30-year fixed rate  
10 mortgage with a monthly payment of \$2,400.

11 Gutierrez explained to Renteria that through  
12 Gutierrez and WFG, he would have all his financial  
13 needs met, from mortgage to insurance and  
14 investments.

15 111. Gutierrez recommended a 1% mortgage loan, which  
16 would lower Renteria's payment to \$1,600. Renteria  
17 closed his mortgage refinance on March 22, 2006,  
18 removing \$11,551 in equity.

19 112. Gutierrez did not disclose to Renteria that his new  
20 mortgage was a negative amortization adjustable  
21 rate loan or that by making the minimum payment his  
22 outstanding balance would increase every month.  
23 Renteria believed his monthly payment included both  
24 principal and interest.

25 113. Gutierrez told Renteria to wait until after the  
26 refinance to purchase investment products because  
27 the refinance would free up money to invest, both

1 from the equity removed and the lower monthly  
2 payments. Gutierrez recommended that Renteria  
3 invest the entire \$800 per month savings on his  
4 mortgage payment with WGS, plus "front-load" the  
5 VUL from the cash-out equity.

6 114. During his presentation on the VUL, Gutierrez told  
7 Renteria that he would earn a 12% return. That  
8 statement is false.

9 115. On March 30, 2006, Renteria purchased three VUL's  
10 and a mutual fund from Gutierrez. Gutierrez  
11 recommended a VUL with a face amount of \$125,000  
12 and a monthly premium payment of \$100 for  
13 Renteria's one year-old daughter, a VUL with a  
14 death benefit of \$250,000 and monthly premium  
15 payment of \$300 for Renteria's wife, and a VUL for  
16 Renteria with a death benefit of \$500,000 and a  
17 monthly premium payment of \$500. At the  
18 recommendation of Gutierrez, Renteria "front-  
19 loaded" both his and his wife's VULs with \$2,500  
20 each with the proceeds from the cash-out refinance.

21 116. The VUL was not a suitable investment for Renteria.  
22 Gutierrez had no basis to reasonably believe that  
23 the VUL was suitable based on Renteria's financial  
24 needs, objectives, and circumstances.

25 117. Gutierrez knew or reasonably believed that the VUL  
26 was unsuited to Renteria's needs and failed to  
27 disclose this fact to Renteria.

1 118. Gutierrez did not disclose to Renteria the monthly  
2 fees and expenses on either the VUL's or the mutual  
3 fund. Gutierrez failed to disclose that the VUL  
4 policies contained surrender charges. Gutierrez  
5 never disclosed the monthly cost of insurance in  
6 the VULs.

7 119. Gutierrez's misrepresentations and omissions  
8 regarding the VUL and the refinancing were  
9 material.

10 120. Gutierrez's misrepresentations and omissions  
11 regarding the VUL and the refinancing were made  
12 with scienter.

13 121. Renteria did not complete the WGS Client Account  
14 Form. Renteria is entirely unfamiliar with the  
15 terms "liquid net worth" or "discretionary income".  
16 Gutierrez completed Renteria's Client Account Form  
17 with false information. The \$10,000 indicated as  
18 "Liquid Net Worth" on the Client Account Form is  
19 the \$10,000 cash back Renteria received from his  
20 refinance.

21 122. Renteria was not involved in calculating the  
22 numbers that were inserted into the "Financial  
23 Profile" on the Client Account Form. Although  
24 Renteria told Gutierrez that before he refinanced,  
25 he had about \$300 left over after paying his bills,  
26 and then would have another \$800 per month after  
27 the refinance, this amount is still far less than



1 the \$1,600 Gutierrez entered on the Client Account  
2 Form as Renteria's discretionary monthly income.

3 **Investor Hermalinda Luna**

4 123. In or about December 2006, Gutierrez met with  
5 investor Hermalinda Luna ("Luna"). Luna is 37  
6 years old and lives in Norwalk, California. Luna  
7 is single with no dependents. Luna is employed as  
8 director of student services, counseling at St.  
9 Francis Medical Center, and a medical social worker  
10 at White Memorial Medical Center. She has a  
11 bachelor's and master's degree in social work from  
12 California State Long Beach. Luna's investment  
13 experience includes an IRA account that she  
14 transferred to WGS. Luna provided her financial  
15 information to Gutierrez.

16 124. Gutierrez recommended Luna refinance her home and  
17 use home equity to purchase securities. Luna  
18 followed Gutierrez's advice and refinanced her home  
19 in order to have money to invest. On December 11,  
20 2006, Luna closed her mortgage loan, withdrawing  
21 \$79,431 in home equity.

22 125. Gutierrez did not disclose to Luna that her new  
23 mortgage was a negative amortization loan or that  
24 by making the minimum payment her outstanding  
25 balance would increase every month.

26 126. After the refinance was complete, Luna grew  
27 concerned about her increasing mortgage balance

1 and approached Gutierrez with that concern.  
2 Gutierrez told Luna that the purpose of her  
3 investment was to use the investment proceeds to  
4 payoff her mortgage in the future.

5 127. Gutierrez recommended Luna purchase a VUL in the  
6 amount of \$9,500. Luna used proceeds from her  
7 refinance to "front-load" her VUL. Her monthly  
8 premiums for the policy are \$400, and the death  
9 benefit is \$500,000.

10 128. The VUL was not a suitable investment for Luna.  
11 Gutierrez had no basis to reasonably believe that  
12 the VUL was suitable based on Luna's financial  
13 needs, objectives, and circumstances.

14 129. Gutierrez knew or reasonably believed that the VUL  
15 was unsuited to Luna and failed to disclose this  
16 fact to Luna.

17 130. The misrepresentations and omissions Gutierrez made  
18 regarding the refinance and VUL were material.

19 131. Gutierrez made the misrepresentations and omissions  
20 regarding the refinance and VUL with scienter.

21 **Investor Moises Aguirre**

22 132. In November 2006, Gutierrez met with investor  
23 Moises Aguirre ("Aguirre"). Aguirre is 35 years  
24 old and lives in Los Angeles, California. He is  
25 single with two young children. Aguirre is  
26 employed by the United States Postal Service as a  
27 letter carrier. Aguirre has no formal education

1 beyond high school. His investment experience is  
2 limited to his Thrift Savings Plan and an American  
3 Funds mutual fund. Aguirre provided his financial  
4 information to Gutierrez.

5 133. Aguirre approached Gutierrez to request assistance  
6 in refinancing his home as Aguirre was going  
7 through a divorce. Aguirre wanted to remove his  
8 ex-wife from the title, and also remove his ex-  
9 wife's portion of the home equity. Gutierrez told  
10 Aguirre he could help him because his firm, WFG,  
11 did both mortgages and investments.

12 134. Gutierrez placed Aguirre in a negative amortization  
13 loan so that Aguirre could lower his monthly  
14 payment, and therefore, have funds available to  
15 invest with WGS each month. Gutierrez also  
16 recommended that Aguirre use equity from his home  
17 to invest with WGS.

18 135. Gutierrez did not disclose to Aguirre that by  
19 making the minimum monthly payment, his principal  
20 mortgage balance would actually increase each  
21 month. Gutierrez also failed to disclose that  
22 Aguirre's interest rate and monthly mortgage  
23 payment could increase. Finally, Gutierrez never  
24 told Aguirre that the mortgage was subject to a  
25 prepayment penalty.

26 136. Based on Gutierrez's recommendations, Aguirre  
27 invested \$3,700 of the proceeds of his cash-out

1           refinance in a VUL.

2 137. The VUL was not a suitable investment for Aguirre.  
3           Gutierrez had no basis to reasonably believe that  
4           the VUL was suitable based on Aguirre's financial  
5           needs, objectives, and circumstances.

6 138. Gutierrez knew or reasonably believed the VUL was  
7           unsuited to Aguirre's needs and failed to disclose  
8           this fact to Aguirre.

9 139. Gutierrez did not disclose to Aguirre the surrender  
10          charges, or monthly expenses, associated with the  
11          VUL.

12 140. Gutierrez's misrepresentations and omissions  
13          regarding the refinance and the VUL were material.

14 141. Gutierrez's misrepresentations and omissions  
15          regarding the refinance and the VUL were made with  
16          scienter.

17 142. Gutierrez completed the Risk Profile and Financial  
18          Profile sections of the Client Account Form on  
19          Aguirre's behalf. Gutierrez instructed Aguirre to  
20          sign the form without explaining either section to  
21          Aguirre. Gutierrez overstated both Aguirre's net  
22          worth and discretionary income on the client  
23          account form.

24 **GABRIEL PAREDES**

25           **Investor Lorenzo Pelayo**

26 143. In or about February 2006, defendant Paredes met  
27          with investor Lorenzo Pelayo ("Pelayo"). Pelayo is

1 41 years old and lives in San Bernardino,  
2 California. Pelayo is married with four minor  
3 children aged 9, 7, 5, and 4. Pelayo has lived in  
4 the United States for 10 years and is employed as a  
5 truck driver. Pelayo's wife, Elsa, is employed  
6 cleaning truck trailers. Both of the Pelayo's  
7 graduated from high school in Mexico, and have no  
8 further education. Pelayo speaks English  
9 haltingly. Pelayo has no investment experience.  
10 For the year ending 2006 the Pelayo family earned a  
11 combined income of \$15,000, and roughly \$35,000 in  
12 2007. Pelayo provided his financial information to  
13 Paredes.

14 144. Paredes met with Pelayo, and recommended Pelayo  
15 refinance his mortgage and use home equity to  
16 invest in a VUL. Paredes suggested a 1.675%  
17 negative amortization adjustable rate loan to keep  
18 Pelayo's monthly mortgage payments as low as  
19 possible so that Pelayo would have funds to invest  
20 each month. Pelayo believed his mortgage loan  
21 would remain at a 1.675% interest rate and his  
22 monthly payments would remain the same for the  
23 thirty-year term. On March 22, 2006, Pelayo  
24 refinanced his mortgage, removing \$55,972 in equity  
25 from his home.

26 145. Paredes did not disclose to Pelayo that his new  
27 mortgage was a negative amortization adjustable

1 rate loan, and therefore, despite making monthly  
2 payments, the principal balance would continue to  
3 increase. Pelayo was not told that his mortgage  
4 interest rate could increase. Paredes did not  
5 disclose that Pelayo's mortgage loan had a  
6 prepayment penalty.

7 146. Paredes recommended that Pelayo purchase five VULs:  
8 a joint policy for him and his wife, and a policy  
9 for each of his young children with the proceeds of  
10 his cash equity. On March 28, 2006, Pelayo paid  
11 \$9,000 to front load the VULs with the funds  
12 received from the refinance of his mortgage. The  
13 monthly premium payments of approximately \$500 are  
14 more than Pelayo can afford, and were paid with the  
15 funds from the refinance. The annual premiums on  
16 the VUL policies comprised more than 1/3 the total  
17 net income of the Pelayo family for 2006.

18 147. The VUL was not a suitable investment for Pelayo.  
19 Paredes had no basis to reasonably believe that the  
20 VUL was suitable based on Pelayo's financial needs,  
21 objectives, and circumstances.

22 148. Paredes' misrepresentations and omissions regarding  
23 the refinance and VUL were material.

24 149. Paredes' misrepresentations and omissions regarding  
25 the refinance and VUL were made with scienter.

26 **Investor Christina Cervantes**

27 150. Paredes and two associates met with investor

1 Christina Cervantes ("Cervantes") in or about April  
2 or May 2006. Cervantes lives in Whittier,  
3 California. Cervantes is 63 and single with two  
4 granddaughters who reside with her. Cervantes is  
5 an operations assistant with the Los Angeles County  
6 Sheriff's Department. Cervantes participates in a  
7 401(k) account and has a Horizons Group retirement  
8 account. Cervantes provided her financial  
9 information to Paredes.

10 151. Paredes and his associates came to Cervantes' house  
11 to discuss insurance. The only type of insurance  
12 Paredes recommended or discussed was variable  
13 universal life. Paredes told Cervantes she could  
14 not lose money because her investment in the VUL  
15 would double every 7 years. Cervantes purchased  
16 three VULs: one for her 35-year-old daughter, one  
17 for her 12-year-old granddaughter, and one for her  
18 3-year-old granddaughter.

19 152. The VUL was not a suitable investment for  
20 Cervantes. Paredes had no basis to reasonably  
21 believe that the VUL was suitable based on  
22 Cervantes' financial needs, objectives, and  
23 circumstances.

24 153. Paredes knew or reasonably believed the VUL was  
25 unsuited to Cervantes' needs and failed to disclose  
26 this fact to Cervantes.

27 154. Paredes did not disclose to Cervantes that there

1 were monthly fees, surrender charges, or expenses  
2 associated with the VUL. Cervantes believed the  
3 entire \$285 she paid each month on behalf of her  
4 daughter and granddaughters was being invested.

5 155. Paredes failed to disclose any risks or that  
6 Cervantes' investment could decrease in value.  
7 Paredes simply emphasized that the VULs would  
8 double in value every seven years.

9 156. Paredes' misrepresentations and omissions regarding  
10 the VUL were material.

11 157. Paredes made the misrepresentations and omissions  
12 regarding the VUL with scienter.

13 **Investor Sandra Chavez**

14 158. In or around November 2006, Paredes met with  
15 investor Sandra Chavez ("Chavez"). Chavez resides  
16 in Highland Park, California. She is married with  
17 four children. Chavez is an independent  
18 distributor for Herbalife International, her  
19 husband, Fredy, works in the construction industry.  
20 Chavez completed 12 years of education in Guatemala  
21 and earned a GED when she came to the U.S. Chavez  
22 has no investment experience outside of WGS.  
23 Chavez does not own life insurance. Chavez  
24 provided her financial information to Paredes.

25 159. On November 6, 2006, Chavez refinanced her mortgage  
26 with Paredes into an option ARM. Her loan amount  
27 was \$360,000. Prior to the refinance, Chavez had a



1 30 year fixed rate mortgage at 8.5% with a monthly  
2 payment of roughly \$1,200 including taxes and  
3 insurance.

4 160. Paredes recommended that Chavez use \$50,000 of home  
5 equity to purchase a variable annuity, and \$50,000  
6 to purchase a money market account. Both purchases  
7 took place on January 15, 2007. Paredes also sold  
8 Chavez four equity indexed universal life policies.

9  
10 161. The variable annuity was not a suitable investment  
11 for Chavez. Paredes had no basis to reasonably  
12 believe that the variable annuity was suitable  
13 based on Chavez' financial needs, objectives, and  
14 circumstances.

15 162. Paredes did not disclose any risks associated with  
16 the variable annuity and told Chavez the variable  
17 annuity could not decrease in value.

18 163. Paredes knew or reasonably believed the variable  
19 annuity was unsuited to Chavez' needs and failed to  
20 disclose this fact to Chavez.

21 164. Paredes' misrepresentations and omissions regarding  
22 the variable annuity were material.

23 165. Paredes made the misrepresentations and omissions  
24 regarding the variable annuity with scienter.

25 166. Paredes filled out Chavez's Client Account Form  
26 with inaccurate information. The annual income  
27 listed on the account form is \$80,000 for Fredy and

1 \$25,000 for Chavez. Fredy's income was between  
2 \$25,000 and \$30,000 for 2006 and 2007. Chavez had  
3 no income during that time. The Client Account  
4 Form lists \$2,000 monthly discretionary income for  
5 Fredy and \$500 for Chavez. This amount is more  
6 than their total income for the year.

7 **ANGEL ROMO**

8 **Investor Yvette Madrid**

9 167. In or around early April 2006, Romo met with  
10 investor Yvette Madrid ("Madrid"). Madrid is 45  
11 years old and resides in Los Angeles, California.  
12 Madrid is single with three grown children who live  
13 with her. Madrid is employed by the Los Angeles  
14 Unified School District as a bus driver. Madrid  
15 earned a GED and has no further education. Her  
16 only investment experience is her contribution to a  
17 retirement plan through work. Madrid has a term  
18 life insurance policy in the amount of \$20,000  
19 through her employer. Madrid provided her  
20 financial information to Romo.

21 168. On April 3, 2006, Madrid purchased a VUL from Romo  
22 with a death benefit of \$250,000 and a monthly  
23 premium payment of \$250.

24 169. The VUL was not a suitable investment for Madrid.  
25 Romo had no basis to reasonably believe that the  
26 VUL was suitable based on Madrid's financial needs,  
27 objectives, and circumstances.

1 170. Romo knew or reasonably believed that the VUL was  
2 unsuited to Madrid's needs and failed to disclose  
3 this to Madrid.

4 171. Madrid also met with Romo regarding refinancing her  
5 home. Madrid closed her loan on May 3, 2006,  
6 taking out \$14,725 of home equity.

7 172. Romo recommended that Madrid use the savings in her  
8 monthly payment as a result of using an option ARM  
9 to invest. Romo did not disclose to Madrid that by  
10 making the minimum payment, her mortgage balance  
11 would increase each month.

12 173. Romo's misrepresentations and omissions regarding  
13 the refinance and the VUL were material.

14 174. Romo made the misrepresentations and omissions  
15 regarding the refinance and the VUL with scienter.

16 175. Although Madrid signed the WGS Client Account Form,  
17 Romo completed Madrid's Client Account Form without  
18 consulting with Madrid. Madrid's Client Account  
19 Form describes her investment objective as  
20 aggressive growth; however, Madrid's objective was  
21 growth and income. Madrid's Client Account Form  
22 also describes her risk tolerance as 50% high risk,  
23 50% speculative; however, Madrid's stated risk  
24 tolerance was low. Madrid's Client Account Form  
25 also overstated her net worth, liquid net worth and  
26 discretionary income.

27

**Investor Calandra Moore**

1  
2 176. In or about July 2006, Romo met with investor  
3 Calandra Moore ("Moore"). Moore is 38 years old  
4 and resides in Fontana, California. She is single  
5 with two children ages 12 and 13. Moore is a  
6 graduate of UCLA and school psychologist for the  
7 Los Angeles Unified School District. Moore  
8 contributes to her 403(b) plan at work and has an  
9 IRA account. Moore has a term life policy through  
10 Liberty Mutual with a death benefit of \$500,000,  
11 for which she paid roughly \$48 per month. Her  
12 children have riders on the term policy for \$10,000  
13 each. Moore provided her financial information to  
14 Romo.

15 177. Romo recommended Moore refinance her mortgage with  
16 an Option ARM. Romo told Moore that the new, lower  
17 interest rate wouldn't adjust for five years.  
18 Based on Romo's representations, Moore understood  
19 her payment would stay the same for five years and  
20 that she would be paying both principal and  
21 interest when making the minimum payment.

22 178. Romo did not tell Moore that by making the minimum  
23 payment her outstanding principal balance would  
24 increase.

25 179. Moore closed her loan with Romo on July 21, 2006  
26 removing \$18,610 of equity.

27 180. Romo recommended that Moore use part of the equity

1 removed with the refinancing of her mortgage to  
2 invest with WGS.

3 181. Moore purchased three WRL Freedom Elite Builder  
4 VUL's from Romo on August 11, 2006, two policies  
5 for her children with initial investments of \$1,200  
6 each, and another for herself with an initial  
7 investment of \$4,200.

8 182. Romo did not disclose the surrender charges  
9 associated with the VULs. Romo also told Moore she  
10 could withdraw money from the policies if she  
11 needed to, and did not tell her there would be  
12 penalties for doing so.

13 183. Romo failed to disclose the fees and expenses  
14 associate with the VUL. Moore believed that 100%  
15 of her premiums were being invested and, based on  
16 Romo's representations, thought the investment  
17 would make 8% per year.

18 184. Moore made the payments on the VUL using her  
19 increased income resulting from the difference  
20 between her old mortgage payment and the payment  
21 after refinancing. After the interest rate on her  
22 new loan adjusted, Moore could not continue to make  
23 the VUL payments because she lacked the necessary  
24 discretionary income.

25 185. The VUL was not a suitable investment for Moore.  
26 Romo had no basis to reasonably believe that the  
27 VUL was suitable based on Moore's financial needs,

1 objectives, and circumstances.

2 186. Romo knew or reasonably believed that the VUL was  
3 unsuited to Moore's needs and failed to disclose  
4 this to Moore.

5 187. Romo's misrepresentations and omissions regarding  
6 the refinance and the VUL were material.

7 188. Romo made the misrepresentations and omissions  
8 regarding the refinance and the VUL with scienter.

9 189. Romo filed out Moore's Client Account Form with  
10 inaccurate information. Moore does not have a net  
11 worth of \$35,000. She does not have \$800 of  
12 discretionary income each month.

13 **Investor Cesar Torres**

14 190. During 2005, Romo met with investor Cesar Torres  
15 ("Torres"). Torres resides in Montebello,  
16 California and is married with a four-year-old  
17 child. Torres is employed by the Los Angeles  
18 Unified School District as a bus driver. He  
19 completed high school and one year of community  
20 college. His only investment experience has been a  
21 retirement account through the school district.  
22 Torres has a \$50,000 life insurance policy through  
23 work. His current annual income is roughly  
24 \$50,000, and his wife makes roughly \$60,000 as a  
25 school teacher. Torres provided his financial  
26 information to Romo.

27 191. Romo recommended that Torres refinance his

1 mortgage. Torres had a 30 year fixed rate loan at  
2 5.95% with a monthly payment of roughly \$2,500.

3 Romo recommended an Option ARM to Torres so Torres  
4 would have the lowest possible monthly payment and  
5 have money to invest with Romo each month.

6 192. Romo also recommended that Torres take the monthly  
7 mortgage savings and purchase a VUL.

8 193. Torres told Romo he wanted to save for retirement.  
9 Romo indicated that Torres could access the money  
10 in the VUL at any time without paying a penalty.  
11 Romo did not tell Torres the VUL had monthly fees  
12 and expenses.

13 194. Based on Romo's recommendation, Torres purchased a  
14 WRL Freedom Elite Builder II VUL on June 16, 2005.  
15 Ultimately, Torres was denied for medical reasons.  
16 The amount of insurance was \$400,000 with a monthly  
17 premium payment of \$266.

18 195. Again in May, 2006, Romo offered Torres a VUL with  
19 an initial investment of \$3,880, a face amount of  
20 \$500,000, and an annual premium of \$3,880, but  
21 Torres was denied again for medical reasons. Romo  
22 also offered a VUL to Torres' wife, but she was  
23 denied for medical reasons. On April 25, 2007,  
24 Romo sold Torres a WRL Freedom Elite Builder II VUL  
25 for his son.

26 196. The VUL was not a suitable investment for Torres.  
27 Romo had no basis to reasonably believe that the

1 VUL was suitable based on Torres' financial needs,  
2 objectives, and circumstances.

3 197. Romo knew or reasonably believed that the VUL was  
4 unsuited to Torres' needs and failed to disclose  
5 this to Torres.

6 198. Romo's misrepresentations and omissions regarding  
7 the VUL were material.

8 199. Romo made the misrepresentations and omissions  
9 regarding the VUL with scienter.

10 **Investor Herbert Saralegui**

11 200. In or about September 2005, Romo met with investor  
12 Herbert Saralegui ("Saralegui"). Saralegui is 35  
13 years old and lives in Baldwin Park, California.  
14 He is single with three dependent children.  
15 Saralegui resides with his girlfriend, who is not  
16 employed outside of the home, and her three  
17 children. Saralegui is a production manager at a  
18 print shop. Saralegui provided his financial  
19 information to Romo.

20 201. On September 25, 2005, Saralegui purchased a VUL  
21 with a death benefit of \$500,000 and a monthly  
22 premium payment of \$350 from Romo.

23 202. The VUL was not a suitable investment for  
24 Saralegui. Romo had no basis to reasonably believe  
25 that the VUL was suitable based on Saralegui's  
26 financial needs, objectives, and circumstances.

27 203. Romo knew or reasonably believed that the VUL was



1 unsuited to Saralegui's needs and failed to  
2 disclose this to Saralegui.

3 204. Romo did not disclose that the VUL would be subject  
4 to surrender fees, or that a portion of the premium  
5 paid each month would be used to purchase life  
6 insurance and would not be invested.

7 205. Romo also advised Saralegui to refinance his  
8 mortgage for the purpose of obtaining a lower  
9 monthly mortgage payment to free up money to invest  
10 in a VUL. Romo told Saralegui that he would make  
11 more money by refinancing and investing because the  
12 money invested in the VUL would earn more interest  
13 than what Saralegui would be paying on his  
14 mortgage. On November 22, 2006, Saralegui closed  
15 his negative amortization option ARM mortgage  
16 refinance.

17 206. Romo did not disclose to Saralegui that the  
18 payments on his mortgage would increase nor was  
19 Saralegui told that the principal balance on his  
20 mortgage would continue to increase despite making  
21 monthly mortgage payments.

22 207. Romo's misrepresentations and omissions regarding  
23 the refinance and the VUL were material.

24 208. Romo made the misrepresentations and omissions  
25 regarding the refinance and the VUL with scienter.  
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**FIRST CLAIM FOR RELIEF**

**FRAUD IN THE OFFER OR SALE OF SECURITIES**

**Violations of Section 17(a) of the Securities Act**

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4 209. The Commission realleges and incorporates by  
5 reference ¶¶ 1 through 208, above.

6 210. Defendants Ainsworth, Haro, Gutierrez, Paredes and  
7 Romo, and each of them, by engaging in the conduct  
8 described above, directly or indirectly, in the  
9 offer or sale of securities by the use of means or  
10 instruments of transportation or communication in  
11 interstate commerce or by use of the mails:

- 12       a. with scienter, employed devices, schemes,  
13       or artifices to defraud;
- 14       b. obtained money or property by means of  
15       untrue statements of a material fact or by  
16       omitting to state a material fact necessary  
17       in order to make the statements made, in  
18       light of the circumstances under which they  
19       were made, not misleading; or
- 20       c. engaged in transactions, practices, or  
21       courses of business which  
22       operated or would operate as a fraud or  
23       deceit upon the purchaser.

24 211. By engaging in the conduct described above, each of  
25 the defendants violated, and unless restrained and  
26 enjoined will continue to violate, Section 17(a) of  
27 the Securities Act, 15 U.S.C. § 77q(a).

**SECOND CLAIM FOR RELIEF**

**FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF  
SECURITIES**

**Violations of Section 10(b) of the Exchange Act and Rule  
10b-5 Thereunder**

212. The Commission realleges and incorporates by reference ¶¶ 1 through 208, above.

213. Defendants Haro, Ainsworth, Gutierrez, Paredes and Romo, and each of them, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

a. employed devices, schemes, or artifices to defraud;

b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or

c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

214. By engaging in the conduct described above, each of

1 the defendants violated, and unless restrained and  
2 enjoined will continue to violate, Section 10(b) of  
3 the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-  
4 5 thereunder, 17 C.F.R. § 240.10b-5.

5 **THIRD CLAIM FOR RELIEF**

6 **AIDING AND ABETTING WGS' FAILURE TO CREATE ACCURATE  
7 CUSTOMER ACCOUNT RECORDS AND ORDER TICKETS**

8 **Violations of Section 17(a) of the Exchange Act and  
9 Rules  
10 17a-3(a), 17a-3(a)(6) and 17a-3(a)(17)**

11 215. The Commission realleges and incorporates by  
12 reference ¶¶ 1 through 208, above.

13 216. Section 17(a) of the Exchange Act requires WGS to  
14 make and keep certain accurate books and records  
15 relating to its brokerage business. This includes,  
16 among other things, customer account records which  
17 contain accurate information regarding a customer's  
18 annual income, net worth, and investment objectives  
19 and order tickets.

20 217. WGS violated Section 17(a) and Rules 17a-3(a), 17a-  
21 3(a)(6) and 17a-3(a)(17) of the Exchange Act by  
22 failing to keep accurate customer account records  
23 and order tickets for the transactions described  
24 above.

25 218. Defendants Ainsworth, Gutierrez, Paredes and Romo  
26 knew that WGS violated Section 17(a) of the  
27 Exchange Act and Rules 17a-3(a), 17a-3(a)(6) and  
17a-3(a)(17) thereunder because each falsified

1 customer account information by increasing net  
2 worth, annual income and monthly discretionary  
3 income and by falsifying order tickets indicating  
4 that the source of customer funds to purchase a VUL  
5 was not the proceeds of any mortgage or home equity  
6 loan.

7 219. Defendant Haro knew that WGS violated Section 17(a)  
8 of the Exchange Act and Rules 17a-3(a) and 17a-  
9 3(a)(6) thereunder because he falsified order  
10 tickets indicating that the source of customer  
11 funds to purchase a VUL was not the proceeds of any  
12 mortgage or home equity loan.

13 220. Defendants substantially assisted WGS in its  
14 primary violations of Section 17(a) of the Exchange  
15 Act and Rules 17a-3(a), 17a-3(a)(6) and 17a-  
16 3(a)(17) thereunder.

17 221. By engaging in the conduct described above, each of  
18 the defendants violated, and unless restrained and  
19 enjoined will continue to violate, Section 17(a) of  
20 the Exchange Act and Rules 17a-3(a), 17a-3(a)(6)  
21 and 17a-3(a)(17) thereunder .

22 **PRAYER FOR RELIEF**

23 WHEREFORE, the Commission requests that the Court:

24 **I.**

25 Issue findings of fact and conclusions of law that  
26 the defendants committed the alleged violations.  
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**II.**

Issue orders, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining each defendant and their officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act, and Sections 10(b) and 17(a) of the Exchange Act and Rules 10b-5, 17a-3(a), 17a-3(a)(6) and 17a-3(a)(17) thereunder.

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**III.**

Order each defendant to disgorge all ill-gotten gains from their illegal conduct, together with prejudgment interest thereon.

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**IV.**

Order each defendant to pay civil penalties under Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).


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**V.**

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant such other and further relief as this Court  
may determine to be just and necessary.

DATED: September 29, 2008

  
\_\_\_\_\_  
Karen L. Martinez  
Attorney for Plaintiff  
Securities and Exchange  
Commission

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