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Texas State Securities Board

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IN THE MATTER OF THE INVESTMENT §
ADVISER REGISTRATION OF §
LFS RIA, LLC AND THE INVESTMENT §
ADVISER REPRESENTATIVE §
REGISTRATION OF CLAIR CROSSLAND §

Order No. IC19-CAF-02

TO: Clair Crossland, President
LFS RIA, LLC (CRD No. 153391)
3224 Purdue Avenue
Dallas, TX 75225

Clair Crossland (CRD No. 1052318)
LFS RIA, LLC
3224 Purdue Avenue
Dallas, TX 75225

DISCIPLINARY ORDER

Be it remembered that LFS RIA, LLC ("Respondent LFS") and Clair Crossland ("Respondent Crossland") (collectively, "Respondents") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this order ("Order") and the Findings of Fact and the Conclusions of Law contained herein.

OVERVIEW

The Securities Commissioner enters this Order against Respondents in connection with the Respondents' recommendations and sales of stream-of-income investments to Respondents' clients. The staff of the Inspections & Compliance Division of the Texas State Securities Board ("Staff"), during an inspection of Respondent LFS, found that Respondents recommended that clients purchase stream-of-income investments, despite numerous red flags with the

companies offering the stream-of-income investments and despite the high risk of default due to the illegality of assignment of the payments from the underlying pension. In connection with these sales, Respondent Crossland received commissions totaling forty-four thousand four-hundred sixty-six dollars and fifty-six cents (\$44,466.56).

To resolve this matter, Respondents have agreed to pay eighty-eight thousand, nine-hundred thirty-three dollars, and twelve cents (\$88,933.12), an amount totaling twice the amount of commissions received by Respondents for the sale of the stream-of-income investments to all clients whose stream-of-income investments defaulted on a pro-rata basis. Repayment shall be made within one-hundred and twenty (120) days from the date this Order is signed by the Securities Commissioner.

FINDINGS OF FACT

1. Respondents have waived (a) Respondents' rights to notice and hearing in this matter; (b) Respondents' rights to appear and present evidence in this matter; (c) Respondents' rights to appeal this Order; and (d) all other procedural rights granted to the Respondents by The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-45 (West 2010 & Supp. 2018) ("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 to 2001.902 (West 2010 & Supp. 2018) ("Administrative Procedure Act").
2. On April 7, 2010, Respondent LFS registered with the Securities Commissioner as an investment adviser. This registration is currently effective.
3. On April 7, 2010 Respondent Crossland registered with the Securities Commissioner as an investment adviser representative of Respondent LFS. This registration is currently effective.
4. As an investment adviser, Respondent LFS manages more than twelve-million dollars (\$12,000,000) and receives an advisory fee ranging from 0.5% to 1.25% based on the assets under management in a client's account.
5. From January 8, 2018 through January 10, 2018 the Staff conducted an inspection of Respondents (the "Inspection").

Stream-of-Income Investments

6. During the Inspection, Staff discovered that Respondents had recommended stream-of-income investments to Respondents' clients.
7. Generally, stream-of-income investments begin with a company acting as a middleman for buyers and sellers. These "factoring companies" introduce potential

investors to individuals who may wish to sell a portion of the income received on pension payments or government disability payments.

8. These transactions hold risks for both buyers and sellers.
9. Sellers, often under financial distress, may accept a lump sum payment from a factoring company that is only a fraction of the present value of the future payments from the income streams.
10. Buyers of the income stream do not acquire any title or ownership of the underlying asset that provides the income stream but rather acquire only a contractual right to receive the future payments from the seller.
11. Accordingly, buyers bear the risk that sellers may redirect checks away from the escrow account, leaving buyers with no recourse other than a potential breach of contract legal claim.
12. Further, laws may prohibit the assignment of certain pension benefits,¹ therefore voiding any contractual right of a buyer and leaving them with effectively no recourse at all for a seller's refusal to pay.

Voyager Financial Group & BAIC

13. Respondents recommended stream-of-income investments offered by Voyager Financial Group, LLC (“VFG”) and BAIC, Inc. (“BAIC”) (collectively, the “Companies”). The Companies were owned and operated by Andrew Gamber (“Gamber”).
14. Notably, in February of 2016, the Securities Commissioner issued an emergency cease and desist order, Order No. ENF-16-CDO-1741, against Gamber and Sobell Corp., the successor company to VFG and BAIC, for engaging in fraud related to the offering and selling of stream-of-income investments.
15. Acting as factoring companies, the Companies facilitated transactions between sellers of income streams and investors in the contractual right to receive payments from the streams (the “Pension Streams”), such as Respondents’ clients.
16. The Companies’ roles included, among other things: 1) valuing the present value of the future income payments; 2) purchasing the rights to receive future payments from the sellers; 3) preparing all necessary documents; and 4) establishing escrow accounts to direct payments from sellers to investors.

¹ The assignability of pension benefits is addressed in the United States Code, including the provisions governing military benefits within 38 USC §5301, civil service benefits within 5 USC §8346(a) and private pension benefits within 29 USC §1056(d).

17. The Pension Streams offered by the Companies promised low risks and returns of up to eight percent (8%) to investors.

The Companies' Marketing Materials

18. Respondent Crossland initially learned of the Pension Streams from a former colleague (the "Representative") who operates a third-party marketing firm focused on distribution of alternative financial products through registered investment advisors, independent broker-dealers, and insurance agents.
19. The Representative provided Respondent Crossland with marketing materials created by the Companies. These materials presented the Pension Streams as a simple and affordable way for clients to meet financial goals by providing predictable income, fixed returns, and flexible terms.
20. The marketing materials did not disclose the risk that a seller could redirect checks away from the escrow account. When Respondent Crossland inquired about the default risk of the Pensions Streams, Respondent Crossland was told that it was "very low, around three percent (3%)."
21. Included in the marketing materials was a "Closing Book." Within the Closing Book was a document prepared by the Companies and titled Contract for Sale of Payments. This document included the following statements:
 - "For the consideration described in the Sales Assistance Agreement, Seller shall transfer and sell to Buyer at Closing one hundred percent (100%) of Seller's right, title and interest in and to the Payments."
 - "Both parties intend that the transaction(s) contemplated by this contract for sale shall constitute valid sale(s) of payments and shall not constitute impermissible assignment(s), transfer(s), or alienation of benefits by sellers as contemplated by applicable laws; however certain risks exists [sic]."
22. Relying on these materials, Respondents recommended the Pension Streams to clients with a conservative growth investment objective because Respondents likened the Pension Streams to fixed income annuities with a guaranteed rate of return ranging from five percent to eight percent (5% to 8%), depending on the length of the terms.

The Companies' Red Flags

23. State securities regulators began entering administrative orders in April 2013 prohibiting sales of Pension Streams offered by VFG and citing VFG for violations of securities laws.
24. In April 2013 and December 2013, the states of Arkansas and New Mexico issued emergency cease and desist orders against VFG and Gamber.
25. The Orders alleged that Pension Streams were unregistered securities, and that VFG failed to disclose material information regarding VFG and the Pension Streams, specifically, the risk of sellers redirecting payments away from the escrow accounts and that some of the Pensions Streams were prohibited by federal law.
26. In May 2013, the United States Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA") published investor alerts (the "Alerts") warning against the risks of investing in pension streams.
27. The Alerts described the investments as risky, complex, expensive, and in certain cases, illegal. The SEC warned that federal law may restrict or prohibit retirees from assigning the pension to someone else and therefore exposed buyers to the risk that the original pension holders may refuse to forward checks to the buyer and the legal challenges of enforcing a buyer's "rights" to the income payments.
28. VFG would later enter into consent orders with the states of Pennsylvania and Arkansas in May and June 2014 that stated VFG sold unregistered securities and either omitted or misstated material characteristics of the pension income streams, such as the fact that some of the pension income streams were unassignable under federal law.
29. Accordingly, beginning in April 2013, an internet search of VFG or Andrew Gamber would have yielded the relevant state administrative orders; and a search of pension streams would have yielded the FINRA and SEC alerts.
30. Despite these red flags, Respondents failed to conduct any independent investigation into the Pension Streams or the Companies relying entirely on the aforementioned marketing materials created by the Companies.

Respondents' Recommendations of the Pension Streams

31. Certain Pension Streams were recommended to clients after the states of New Mexico and Pennsylvania had issued Orders against VFG and after the Alerts were published.
32. From April 2013 through June 2014, Respondents recommended that three (3) clients purchase ten (10) Pension Streams from the Companies, totaling four-

hundred thirty-six thousand, four-hundred nineteen dollars and seven cents (\$436,419.07).

33. Of the ten (10) Pension Streams sold after April 2013, eight (8) were veteran disability pensions, one (1) was a federal department of defense pension, and one (1) was a U.S. postal service pension. Each of the ten (10) Pension Streams was unassignable under federal law.

34. Of those ten (10) Pension Streams, seven (7) were in default as of March 31, 2019 for a total one-hundred sixty-five thousand, seven-hundred eighty-three dollars and fifty-six cents (\$165,783.56) in missed payments to two (2) clients.

Unregistered Activity

35. From June 2011 through June 2014 Respondent Crossland sold the Pension Streams to the clients of Respondents on behalf of the Companies.

36. In connection with these sales, Respondent Crossland collected a commission ranging from four percent to seven percent (4% to 7%) from the Companies depending on the duration of the investment. For example, a sixty-month investment yielded a four percent (4%) commission whereas a one-hundred and eighty-month investment yielded a seven percent (7%) commission.

37. Respondent Crossland received a total of forty-four thousand four-hundred sixty-six dollars and fifty-six cents (\$44,466.56) in commissions for the sale of the Pension Streams.

38. Respondent Crossland is not registered as a dealer with the Securities Commissioner and has never been registered with the Securities Commissioner as an agent of a registered dealer.

Respondents' Cooperation

39. Respondents have cooperated extensively with the Staff during the course of its investigation and have agreed to cooperate with any investigation by the Enforcement Division of the Texas State Securities Board or other law enforcement agency relating to the sales of Pension Streams offered by the Companies or any affiliated companies and any individuals involved.

CONCLUSIONS OF LAW

1. The Pension Streams constitute “securities” as the term is defined by Section 4.A of the Texas Securities Act.
2. Respondents did not have a reasonable basis to believe that the Pension Streams were suitable recommendations to any client because Respondents did not understand significant characteristics of the Pension Streams or the Companies.
3. Respondents’ recommendations without such reasonable basis constitute an inequitable practice in the rendering of services as an investment adviser and an investment adviser representative.
4. Pursuant to Section 14.A(3) of the Texas Securities Act, the aforementioned inequitable practices in the rendering of services as an investment adviser/investment adviser representative constitute bases for reprimanding the Respondents.
5. Respondent Crossland’s sales of the Pension Streams at a time when Respondent Crossland was not registered with the Securities Commissioner as a dealer or as an agent of a registered dealer is a violation of Section 12.A of the Texas Securities Act.
6. Pursuant to Section 14.A(6) of the Texas Securities Act, the aforementioned violation of Section 12.A of the Texas Securities Act constitutes a basis for reprimanding Respondent Crossland.

UNDERTAKING

1. Respondents undertake and agree that within one-hundred and twenty (120) days from the date this Order is signed by the Securities Commissioner, Respondents will pay eighty-eight thousand, nine-hundred thirty-three dollars, and twelve cents (\$88,933.12) an amount totaling double the amount of commissions received by Respondents for the sale of the pension-income-stream investments to all clients whose Pension Streams defaulted on a pro-rata basis.
2. Respondents further undertake and agree that within one-hundred and thirty (130) days from the date this Order is signed by the Securities Commissioner, Respondents will provide the legal counsel for the Inspections & Compliance Division of the Texas State Securities Board with evidence that Respondent has made the repayment.

ORDER

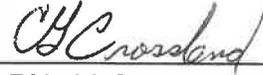
1. It is therefore ORDERED that LFS RIA, LLC is hereby REPRIMANDED.
2. It is further ORDERED that Clair Crossland is hereby REPRIMANDED.
3. It is further ORDERED that LFS RIA, LLC and Clair Crossland COMPLY with the terms of the Undertaking contained herein.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 6th
day of June, 2019.

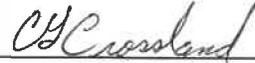


TRAVIS J. ILES
Securities Commissioner

Respondents:



LFS RIA, LLC
By: Clair Crossland, President



Clair Crossland, Individually

Approved as to Form:



Clinton Edgar
Deputy Securities Commissioner



Cristi Ramón Ochoa
Attorney, Inspections and Compliance Division