STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: RAYMOND T. BLUNK	)	FILE NO. 1100493

NOTICE OF HEARING

TO THE RESPONDENT:

Raynond T. Blunk
(CRD#: 2011245)
12126 Woods Bay Place
Carmel, Indiana 46033

Raynond T. Blunk
(CRD#: 2011245)
C/o Transamerica Financial Advisors, Inc.
570 Carillon Parkway
St. Petersburg, Florida 33716-1202

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 21st day of March, 2012 at the hour of 10:00 a.m. or as soon as possible thereafter, before James L. Kopecky Esq. or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an order shall be entered revoking Raynond T. Blunk's (the "Respondent") registration as a salesperson and investment adviser representative in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E (4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson and investment adviser representative in the State of Illinois pursuant to Section 8 of the Act.

2. That on October 21, 2011 FINRA entered ORDER ACCEPTING OFFER OF SETTLEMENT ("Order") submitted by the Respondent regarding Disciplinary Proceeding No. 2007008935009 which sanctioned the Respondent as follows:

   a. suspended from association with any FINRA member in any capacity for twenty-five calendar days; and

   b. fined $15,000.

3. That the Order found: While employed as a registered representative, the Respondent recommended that customers participate in a so-called "Stock to Cash" program under which customers would pledge stock to obtain loans to purchase other products. Certain of the Respondent's customers participated in that program at his recommendation, obtaining nine loans totaling approximately $1.8 million.

   Under the terms of the Stock to Cash program, customers obtained non-recourse loans from a non-broker-dealer company and "pledged" stock to that entity as collateral for the loans. The "pledged" stock would be transferred to the loaning entity's securities account, which was maintained at a clearing firm. The loans were in amounts up to 90% of the value of the "pledged" stock and were typically for a short period of time, usually three years. No payments were required during the term of the loan; instead, customers were required to pay the full principal and interest due at the end of the loan term. Customers received 90% of the value of their stock at the time the loan was initiated, and did not pay any interest unless they sought to recover stock they had pledged. Potential out-of-pocket loss in any case was therefore limited to 10% of the value of the pledged stock.

   At the end of the loan term, customers supposedly had four options: (1) the customer could renew the loan for an additional time period; (2) the customer could pay the total amount due on the loan and reclaim the stock that had been pledged; (3) if the value of the pledged stock had increased above the total amount due on the loan, the customer could elect to receive a cash payment equal to this profit (i.e., the current value of the stock, minus the total amount due on the loan); or (4) if the total amount due on the loan exceeded the value of the pledged stock, the customer could "walk away" from the transaction, keeping the money that had been loaned and forfeiting his or her interest in the pledged stock.

Documentation used by the loaning entity made it appear that the entity was retaining the securities pledged by customers and might use those securities to enter into hedging transactions. For example, the loaning entity claimed it was entering into "hedging" transactions using the customers' pledged stock as collateral. This would supposedly generate cash and, through the use of options strategies, allow the entity to return the stock, or sell it and pay the profits, to the customers at the end of the loan terms. The loaning entity also credited dividends paid on the pledged securities against a customer's loan balance.

Despite this, however, when customers "pledged" stock as a part of the Stock to Cash program, they actually conveyed full ownership of their stock to the entity conducting the program. That entity routinely sold the securities upon receipt and often moved the money into its own bank account. Moreover, although the entity's ability to perform its contractual obligations under the Stock to Cash program was largely dependent on the success of supposed hedging strategies, it was not always performing such activities.

By the spring of 2008, the entity running the program became unable to make complete payments to customers with profitable portfolios. It instead used the proceeds from the sale of securities pledged by new customers to pay off its obligations to existing customers. In addition, money was diverted from the entity to pay for expenses not related to its operation. The entity stopped making all payments to customers in early 2009, and stopped making loans in the spring of 2009.

The Respondent recommended Stock to Cash loans to numerous customers while he was registered with Inter Securities, Inc. certain customers accepted his recommendation, taking out nine loans totaling approximately $1.8 million. All of these loans were made between February 2004 and March 2007, and ranged in duration from two to five years. These customers used some of the loan proceeds to purchase insurance products through the Respondent.

The Respondent did not undertake adequate efforts to find out what happened to the stock that was conveyed to the lender. He relied on information provided by the persons marketing the program. He merely assumed that the lender was a broker-dealer holding the stock for his customers in custodial accounts. He did not undertake any steps to verify this mistaken assumption. In addition, when he tried to find out more information about the lender, the intermediaries with whom he dealt refused to provide more information. He nevertheless went ahead and entrusted his clients' securities to this lender. He failed to conduct adequate due diligence or research regarding the lender before recommending the Stock to Cash program to existing and potential clients.

As a registered representative, the Respondent was obligated under Conduct Rule 2310 to have a reasonable basis for recommending that his customers pledge their stock to this lender to participate in the Stock to Cash program. A broker must understand the potential risks and rewards, as well as ensure that the customer understands the risks. In order to do so, the broker must obtain adequate information about the product or investment, and cannot rely solely on the unexamined representations of those promoting it. There is a particularly high need for substantial due diligence in dealing with unregistered and unregulated entities and products, such as the Stock to Cash program the Respondent recommended to his clients.

By failing to obtain and verify information about how the stock was held or secured, and whether the lender had the ability to fulfill its obligations, the Respondent violated the requirement of having a reasonable basis for recommending the Stock to Cash program to his customers and potential customers. By making recommendations to customers without a reasonable basis, the Respondent violated NASD Conduct Rules 2310 and 2110 (now FINRA Rule 2010). Based on the foregoing, the Respondent violated NASD Conduct Rules 2310 and 2110.

4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson and investment adviser representative may be revoked if the Secretary of State finds that such Salesperson or investment adviser representative has been suspended by any self-regulatory organization Registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory Organization.

5. That FINRA is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.

6. That by virtue of the foregoing, the Respondent's registration as a Salesperson and investment adviser representative in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(j) of the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 ILL. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 24th day of January 2012.

JESSE WHITE
Secretary of State
State of Illinois

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