

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF:

Proceedings by Richard J. Badolato, Acting Commissioner, New Jersey Department of Banking and Insurance, to fine and suspend or revoke the insurance producer license of William Kwasnik, Reference No. 0197734.

**ORDER
TO
SHOW
CAUSE**

TO: William Kwasnik
2375 NE 173rd Street, Apt. 103
Miami, Florida 33160

LS Insurance Services LLC
1900 Greentree Road
Suite 24
Cherry Hill, New Jersey 08003-2023

This matter, having been opened by Richard J. Badolato, Acting Commissioner, New Jersey Department of Banking and Insurance, ("Commissioner"), upon information that William Kwasnik, currently licensed as a resident individual insurance producer, pursuant to N.J.S.A. 17:22A-32, may have violated various provisions of the insurance laws of the State of New Jersey; and

WHEREAS, Kwasnik is subject to the provisions of the New Jersey Insurance Producer Licensing Act, N.J.S.A. 17:22A-26 et seq. ("Producer Act"); and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(1), an insurance producer shall not provide incorrect, misleading, incomplete, or materially untrue information in the license application; and

WHEREAS, pursuant to N.J.S.A. 17:22A-32, Respondent Kwasnik is licensed as a resident individual insurance producer; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(2), an insurance producer shall not violate any insurance laws or regulations; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(2), an insurance producer shall not violate any insurance laws or regulations; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(7), it is a violation of the Producer Act, if a producer has admitted or been found to have committed any insurance unfair trade practice or fraud; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(8), an insurance producer shall not use fraudulent, coercive, or dishonest practices, or demonstrate incompetence, untrustworthiness, or financial irresponsibility in the conduct of insurance business; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(15), an insurance producer shall not intentionally withhold material information or make a material misstatement in an application for a license; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40a(16), an insurance producer shall not commit any fraudulent act; and

WHEREAS, pursuant to N.J.S.A. 17:22A-47a, an insurance producer shall report to the commissioner any administrative action

taken against the insurance producer in another jurisdiction or by another governmental agency in this State within 30 days of the final disposition of the matter, which shall include a copy of the order, consent order or other relevant legal documents; and

COUNT 1

IT APPEARING that, from December 2008 until December 2010, Kwasnik served as Chief Executive Officer of Liberty State Financial Holdings Corp. ("LSFHC") and was president of Liberty State Benefits of Pennsylvania ("LSBPA"); and

IT FURTHER APPEARING that while Kwasnik served as CEO of LSFHC, Kwasnik's son, Michael and LSFHC, raised approximately \$10,800,000.00 ("Investor Funds") through the sale of unregistered securities issued by LSBPA in the form of three year secured notes paying 12% interest per year ("LSBPA Notes") using a Private Placement Memorandum ("PPM"); and

IT FURTHER APPEARING that the LSBPA notes were to be "secured" by 100% of the beneficial interests of any Irrevocable Life Insurance Trusts purchased by LSBPA, as well as by other assets owned by LSFHC; and

IT FURTHER APPEARING that, these Life Insurance Trusts purportedly contained Life Insurance Policies that named LSBPA as a beneficiary and were purchased in transactions otherwise known as viatical settlements; and

IT FURTHER APPEARING that, despite promises to investors, the LSBPA Notes were unsecured; and

IT FURTHER APPEARING that the PPM stated that the use of Investor Funds was limited to: purchasing life insurance policies; paying insurance premiums; paying attorneys' fees relating to the PPM; and paying management fees; and

IT FURTHER APPEARING that the PPM further stated that the Investor Funds would be deposited into an Investment/Investor Account; and

IT FURTHER APPEARING that the Investor Funds were not deposited into such an account as required by the PPM; and

IT FURTHER APPEARING that the Investor Funds were actually deposited into bank accounts held in the name of LSFHC and one of its subsidiaries, Liberty State Benefits of Delaware, Inc. (collectively, the "Liberty Bank Accounts"); and

IT FURTHER APPEARING that Kwasnik was an authorized signer on the Liberty Bank Accounts; and

IT FURTHER APPEARING that, on numerous occasions, Kwasnik signed, or authorized Michael or an employee of Michael's law firm, to sign his name to checks payable from the Liberty Bank Accounts; and

IT FURTHER APPEARING that checks issued from the Liberty Bank Accounts were reviewed and approved by LSFHC's Board of Directors, which included Kwasnik; and

IT FURTHER APPEARING that approximately \$160,769.00 from the Investor Funds was paid to Kwasnik, his son, other family members, his son's law firm, or an investment fund, all for unstated reasons; and

IT FURTHER APPEARING that, on September 4, 2015, Kwasnik entered into a Consent Order and Final Judgment ("Order") with the Chief of the New Jersey Bureau of Securities ("Bureau Chief"); and

IT FURTHER APPEARING that, in the Order, the Bureau Chief determined and found as fact that Kwasnik engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person, in violation of N.J.S.A. 49:3-52(c); and

IT FURTHER APPEARING that, by engaging in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person, Kwasnik used fraudulent, coercive, or dishonest practices and committed a fraudulent act, in violation of N.J.S.A. 17:22A-40a(2), (7), (8), and (16); and

Count 2

IT FURTHER APPEARING that, Kwasnik did not report to the Commissioner that on September 4, 2015 he entered into an Order with the Bureau Chief, another governmental agency in this State within 30 days of the final disposition of the matter, in violation of N.J.S.A. 17:22A-47a; and

Count 3

IT FURTHER APPEARING that, on January 9, 2015, Kwasnik completed an application for renewal of his New Jersey insurance producer license and submitted it to the New Jersey Department of Banking and Insurance; and

IT FURTHER APPEARING that, on the January 9, 2015 renewal application, Kwasnik failed to disclose that he was involved in an administrative proceeding with the New Jersey Bureau of Securities, brought in 2011, Docket Number ESX-C-59-11; in violation of N.J.S.A. 17:22A-40a(1) and (15); and

NOW, THEREFORE, IT IS on this 17th day of May, 2016

ORDERED that Kwasnik appear and show cause why the New Jersey insurance producer license issued to him should not be revoked by the Commissioner and why he should not be fined up to \$5,000.00 for the first offense and not more than \$10,000.00 for the second and each subsequent offense, pursuant to N.J.S.A. 17:22A-40 and N.J.S.A. 17:22A-45c; and

IT IS FURTHER ORDERED that Kwasnik appear and show cause why he should not be subject to additional penalties including reimbursement of the costs of investigation and prosecution authorized pursuant to the provisions of N.J.S.A. 17:22a-45c; and

IT IS PROVIDED that Kwasnik has the right to request an administrative hearing, to be represented by counsel or other qualified representative, at his own expense, to take testimony, to

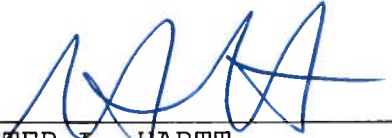
call or cross-examine witnesses, to have subpoenas issued, and to present evidence or argument if a hearing is requested; and

IT IS FURTHER PROVIDED that, unless a request for a hearing is received within twenty (20) days of the service of this Order to Show Cause, the right to a hearing in this matter shall be deemed to have been waived by the licensee and the Commissioner shall dispose of this matter in accordance with the law. A hearing may be requested by mailing the request to Virgil Downtin, Chief of Investigations, Department of Banking and Insurance, P.O. Box 329, Trenton, New Jersey, 08625, or by faxing the hearing request to the Department at (609) 292-5337. The request shall contain the following:

- (a) The licensee's name, address, and daytime telephone number;
- (b) A statement referring to each charge alleged in this Order to Show Cause and identifying any defense intended to be asserted in response to each charge. Where the defense relies on facts not contained in the Order to Show Cause, those specific facts must be stated;
- (c) A specific admission or denial of each fact alleged in this Order to Show Cause. Where the licensee has no specific knowledge regarding a fact alleged in the Order to Show Cause, a statement to that effect must be contained in the hearing request. Allegations of this Order to Show Cause not

answered in the manner set forth above shall be deemed to
have been admitted; and

(d) A statement requesting a hearing.



PETER L. HARTT
Director of Insurance