BEACH BROKER STOLE INVESTORS' DREAMS

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NORFOLK - NORFOLK - Army retiree George Naylor invested $171,000 to build a nest egg for his two disabled sons.

George Quarles of Chesapeake planned on his first real vacation in 40 years with proceeds from his $126,000 investment. Homemaker Loretta Kmak of Illinois hoped to retire comfortably by investing her life savings - $110,000. She was so ashamed at the result she couldn't tell her children about it for years.

Each one bought into a viatical investment from a Virginia **Beach broker**. They thought it was a sure thing, but instead they ended up victims of a $5.3 million investment scheme.

On Friday, U.S. District Court Judge Raymond A. Jackson sentenced the former **broker** to the maximum penalty and ordered him to repay the investors.

Terry Young, 50, will serve four years and three months in prison, culminating an FBI investigation that started four years ago.

The word viatical is Latin, meaning ``money for a journey.''

A viatical allows a terminally ill patient to sell a life insurance policy and enjoy the final days with a little extra cash or pay off medical bills, removing the burden from family.

Investors who buy a stake in such policies are sometimes promised returns of 42 percent when the patient dies. The average return is around 12 percent.

Legitimate viatical sales are in the billions of dollars. They are legal investments regulated by at least 29 states, including Virginia.

Fraudulent contracts cost investors nationwide about $1 billion last year, according to the North American Securities Administrators Association. Congress began studying the issue last month.

Young thought he discovered a gold mine in the mid-1990s, when he realized the investments were legal.

The former insurance salesman started his own company and began buying policies of the terminally ill and selling them to investors like Naylor, Quarles and Kmak.

He said he moved from Maryland to Virginia **Beach** to profit from the large retired military community. He had salesmen in 23 states.

For a while, it worked.

Young bought a boat and an $80,000 sports car.

Then things got murky.

Patients began living longer. Some, Young said, secretly signed back the insurance policies.

By the time the FBI and the U.S. attorney caught up with him last year, investors had lost nearly $5.3 million over six years.

A federal indictment filed in October charged Young with pocketing $2.4 million from 113 investors by never actually obtaining contracts for the viaticals. Another 108 investors lost the remaining $2.9 million through Young's self-admitted mistakes.

Young pleaded guilty Dec. 10 to mail fraud and unlawful monetary transactions.

The investors, however, are unlikely to see but a fraction of their losses returned. Some won't get a dime.

In court, Young turned to about 10 victims and apologized.

At 81, George D. Naylor Jr.'s walk is more like a shuffle. The World War II Army machine-gunner fought in the Battle of the Bulge and suffered two injuries, one on the 4th of July. He still carries shrapnel in his pelvic region.

Naylor lives with his third wife in a modest Chesapeake ranch home filled with war mementos and civic awards.

They care for Naylor's two grown, disabled sons from his second marriage. One son was born with learning disabilities. The other suffered brain damage during surgery as a child, and they both need help caring for themselves.

Naylor keeps in close touch with his Army buddies from the 83rd Infantry Division.

When he attended a local meeting of retired veterans several years ago, he thought he could trust what he was hearing: a salesman pitching a new kind of investment called a viatical.

Naylor, living on a pension, investments and Social Security since his retirement from a local shipyard in 1970, thought the 12 percent return sounded safe and fruitful. He even researched the practice and sought advice from a financial planner.

Although he never met Young, Naylor mailed off checks totaling $92,749.54. Before receiving any return on that investment, he sent another check for about $79,000 for a second viatical contract.

``It was something I saved up for my boys,'' he said.

Naylor received one contract for the larger amount, but paperwork never arrived for the second amount.

He can't remember much else about his contract and turned his papers over to the FBI.

He says now he would just as soon forget the whole thing.

``I didn't lose everything,'' Naylor said.

Other victims suffered far worse.

Testimonials filed in court show devastating losses, mostly to retirees.

``Victims were not sophisticated, wealthy investors, but rather hard-working middle-class people,'' Assistant U.S. Attorney Robert J. Krask wrote in court papers seeking the maximum punishment.

George W. Quarles Jr., of Chesapeake, who with his wife and daughter lost $126,000, wrote simply: ``The best word I know to describe how we were affected is stigmatized.''

Retired military officer Jimmy L. Dull, who worked in insurance for 36 years, lost $10,000. ``I do not trust people anymore,'' he wrote.

``I personally feel like an idiot,'' wrote Robert R. Harkness of Roscoe, Ill., who lost $15,500.

Andrea Lang of Knightdale, N.C., wrote perhaps the most touching letter. Her father and 75-year-old mother, Loretta Kmak, ``scrimped and saved'' to put their children through private schools and to live a comfortable retirement. When her father died 19 years ago, he left a sizeable sum for Kmak.

She invested $110,000 with Young and lost it all.

``She was humiliated and waited for years to tell us about what happened,'' Lang wrote. ``She was so ashamed that someone would swindle a widow out of her life savings.''

Young was warned about the risk of viaticals.

As an insurance agent for Aetna in Maryland, he was offered his first viatical contract around 1995. But Aetna was against viaticals.

``Aetna freaked out and tried to fire me,'' Young said earlier this week from Kentucky, where he moved.

He borrowed money from investors and bought the insurance policy of a dying man, a friend of an acquaintance.

``That one worked out,'' he said.

Young set up two companies, South-Central Family First Corp. and Cardinal Holding Co., and worked out of an office suite on Viking Drive in Virginia **Beach**.

He registered South-Central in Virginia and Cardinal Holding in Maryland. Cardinal Holding was to keep insurance payments in escrow.

His business operated legitimately for about a year before the bottom fell out, according to court records.

Young gave several reasons for the failure: He had eight contracts worth $1.6 million come due at one time; his wife left him, and he had to begin paying spousal and child support; his associates turned against him; some patients broke contracts; and he received poor legal advice.

``What it boils down to,'' he said, ``is I followed instructions by my corporate attorney because the business was turning sour.''

The lawyer, whom Young would not identify, told him to liquidate his assets.

Young's criminal lawyer, Andrew A. Protogyrou of Norfolk, equated that advice with what happened to Enron, the Houston corporation under federal investigation.

``You have a corporation that's doing well and then, all of a sudden, when it starts falling apart, the owners started cashing in,'' Protogyrou said.

Young was living lavishly at the time.

FBI agent Jack Moughan testified Friday that Young spent $2 million on two restaurants, a liquor store, a farm and equipment in Maryland and a home in Virginia **Beach**. Court records show Young also bought the boat and the Acura NSX sports car.

He has nothing left.

Jackson ordered that any assets be used to pay back the victims.

Young has repaid a $600,000 investment made by a Bahamas-based company. Protogyrou said Young owns two viatical contracts worth about $1 million combined that could be used to repay victims. Another personal insurance policy is worth $1 million. The farm in Maryland, with equity of about $175,000, will be sold. That amounts to about half of the losses.

The judge has scheduled a hearing in a month to determine exactly how much more needs to be repaid. The government hopes to work out details by then.

Once he's free from prison, Young said, he intends to repay victims $500 a month until his debts are clear. But those involved concede that some investors probably won't be around by then.

``I'm the bad guy and I'm the one taking the hit on it,'' Young said. ``I stood up and said I made a mistake.''

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Description of illustration(s):
color photo
BILL TIERNAN/THE VIRGINIAN-PILOT
George Naylor, 81, was one of the many people who were taken
advantage of in a phony viatical contract con. He lost $171,000.
