



# ***DCCA NEWS RELEASE***

BUSINESS REGISTRATION DIVISION

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**FOR IMMEDIATE RELEASE**

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## **“PRIME BANK SCAMS ON RISE”**

Honolulu, Hawaii (January 17, 2002) – With low interest rates and volatile equity markets causing Americans to rethink their investment strategies, Hawaii’s top securities regulator warned Thursday that losses from “prime bank” scams – over \$1.5 billion last year, by one estimate - are rising dramatically.

Ryan Ushijima, Hawaii’s Securities Commissioner, said that the recession and volatile stock markets are making investing through the supposedly secretive portfolios of “prime banks” seem more appealing to investors. Promoters claim that prime bank trading programs can yield huge returns with no risk. In reality, Commissioner Ushijima said, neither prime banks nor the instruments they claim to trade exist.

In a typical pitch, increasingly made over the Internet, investors are promised access to secret, high-yield investments made through trades among the world’s top or “prime” banks. Prime bank promoters falsely claim their investments are guaranteed or secured by some sort of collateral or insurance. So many prime bank scams succeed that the Commercial Crime Bureau of the International Chamber of Commerce calls them the “fraud of the century.”

State securities regulators say that many victims of prime bank scams fail to report their losses because they don’t want to appear foolish. Others simply can’t believe close friends, trusted business associates, or people they met at church ripped them off. Over the past three years, state regulators have brought actions on behalf of more than 41,000 people nationwide who invested at least \$470 million in prime bank scams.

“People want to believe there are secret ways to make fabulous amounts of money,” said Commissioner Ushijima. “But there are no shortcuts in investing. Simply put, prime banks don’t exist.”

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Besides promising high returns with no risk, some prime bank scams appeal to conspiracy buffs and those who distrust government or want to avoid paying taxes through offshore accounts.

In Texas, a Harlingen-based con artist promised returns of 6 percent to 8 percent a month through a secretive web of money dealers supposedly set up by a coalition of governments in 1914 to pay for World War I debt. The promoter claimed that seven “world traders” control the entire global money supply. The “world traders” were said to act as a sort of board of directors for 150 “licensed traders.” In the end, the scam, titled “Economic Solutions,” took over 300 investors for roughly \$6 million.

“Prime bank promoters promise to open the X-files of the financial world,” Tony Taggart, director of the Utah Securities Division, told a national press conference today in Washington, DC. In cooperation with the U.S. attorney in Sacramento, California, Utah regulators shut down Castlerock/IFR Trust, a \$110 million prime bank scam that was funneling money to the promoters’ bank accounts in Latvia.

One promoter prosecuted by Utah securities regulators falsely claimed to have ornate offices protected by former CIA agents and a staff that included former federal judges and U.S. attorneys. The promoter told investors he would help them avoid the attention of the Internal Revenue Service, Secret Service and Federal Reserve system.

According to the U.S. Attorney’s office in Sacramento, top IFR managers led lavish lifestyles, using investor funds to buy a large ranch and expensive luxury vehicles for themselves and their relatives and make business loans to unrelated entities.

“A veneer of sophistication is often all that’s needed to sell a prime bank scam,” said Assistant U.S. Attorney Benjamin Wagner. Wagner joined forces with Utah regulators to prosecute the promoters behind IFR Trust, which was based in California. “The con artists use a lot of financial jargon and the investors don’t question them because they don’t want to appear naïve. But there are no dumb questions when it comes to your money.”

Prime bank scam artists come from all backgrounds. For example, in Alabama, a real estate broker, a community college professor and a licensed stockbroker joined forces to scam more than \$2,000,000. Investors, including some of the professor’s students, were promised 40 percent to 50 percent annual returns through “the systemic purchase and resale of prime bank instruments with major world banks.” In reality, investor funds were used to make mortgage payments, buy furniture, purchase expensive cars and pay for vacations to Europe.

Other regulators are fighting prime bank scams. Over the last three years, regulators at the Securities and Exchange Commission have shut down roughly three dozen prime bank scams, with losses totaling hundreds of millions of dollars. Promoters often used investor funds to lead lavish lifestyles.

For example, promoters for Tri-West Investment Club, a \$50 million prime bank scam shut down jointly by West Virginia, Washington, British Columbia and federal regulators, used investor funds to buy expensive homes, a helicopter, a yacht and luxury automobiles, including 10 antique cars.

One reason prime bank scam artists are able to mislead people is because the instruments they claim to be using – standby letters of credit, bank debentures and bank-secured trading programs, to name a few – mimic legitimate financial instruments closely enough to deceive people outside the specialized world of international banking.

In Illinois, for example, state securities regulators shut down an Internet-based scam that promised to “pool investor money to obtain an irrevocable line of credit from a fiduciary bank and use the line of credit to purchase negotiable receivable invoices and raise capital funds against these invoices and other secondary market debt instruments for par values higher than the actual face value of the original irrevocable letters of credit and then direct the fiduciary bank to exchange the receivable invoices for a certificate of deposit from a Prime Western Bank.” The CD would then, according to the scam artists, be used to pay back investors with interest.

“The explosive growth of prime bank fraud is inextricably tied to the dramatic innovations we’ve seen in finance over the past 20 years,” says James Byrne, associate professor at George Mason University School of Law and director of the Institute of International Banking Law and Practice. “The con artist devises sophisticated sounding but fictitious investment products that mimic the hundreds of new, legitimate products. That’s why prime bank fraud has the potential to be not only the ‘fraud of the 20<sup>th</sup> century,’ as the International Chamber of Commerce said, but the fraud of the 21<sup>st</sup> century.”

State regulators said that investors too often let a desire for above-market returns cloud their judgement. When promised returns fail to materialize, con artists often use promises of ever-higher returns – in some cases upwards of 1,000 percent annually – to persuade their victims to “reinvest.”

For example, one Missouri-based prime bank promoter promised investors a 50 percent return in six months through an offshore trading program that supposedly made “overseas loans” to financially strapped foreign governments. As the six-month deadline approached,

the con artist would then offer to reinvest the alleged gains in a new scheme supposedly yielding 300 percent over nine months.

“In prime bank schemes like these, investors should ask themselves ‘Why me?’” said Commissioner Ushijima. “If this scheme really works, why is some stranger in a hotel meeting room or on the telephone or the Internet offering to cut me in on it? Prime bank trading programs don’t pass the smell test.”

Before making any investment, state securities regulators urge investors to ask the following questions:

- Are the seller and investment licensed and registered in your state? Call your state securities regulator to find out. If they aren’t, they may be operating illegally. Call 586-2722.
- Has the seller given you written information that fully explains the investment? Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain enough clear and accurate information to allow you or your financial adviser to evaluate and verify the particulars of the investment. Watch for jargon that sounds sophisticated but makes no sense.
- Are claims made for the investment realistic? Some things really are too good to be true. Use common sense and get a professional, third-party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud.
- Does the investment meet your personal investment goals? Whether you are investing for long-term growth, investment income or other reasons, an investment should match your own investment goals.

The Hawaii Department of Commerce and Consumer Affairs can also provide answers to questions about investments as well as the stockbroker or brokerage firm selling them. Contact the Securities Enforcement Branch of the Department of Commerce and Consumer Affairs at 586-2740 on Oahu. The toll free numbers for the neighbor islands are as follows:

Big Island: 947-4000, then enter 62740 and hit #  
Kauai: 274-3141, then enter 62740 and hit #  
Maui: 984-2400, then enter 62740 and hit #  
Molokai & Lanai: 1-800-468-4644, then enter 62740 and hit #