Stanford International: $9 billion fraud triggers widening bank panic

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An apparent $9 billion bank fraud perpetrated by the Antiguan-based Stanford International Bank (SIB) triggered an international banking panic as the firm's owner, billionaire Texas businessman Robert Allen Stanford, went missing.

The US Securities and Exchange Commission (SEC) filed civil charges against Stanford and three of his companies Tuesday, accusing Stanford of "orchestrating a fraudulent, multibillion-dollar investment scheme centering on an $8 billion CD program."

In addition to the Antiguan-based SIB, the Houston-based brokerage and investment advisory firm Stanford Group Company (SGC), and Stanford Capital Management, an investment adviser, were also named in the fraud case. The SEC also charged SIB Chief Financial Officer James Davis and Laura Pendergest-Holt, the chief investment officer of Stanford Financial Group.

US Marshalls and SEC enforcement agents descended on the Houston, Texas headquarters of the Stanford companies Tuesday, securing entrances to the building, searching its offices and impounding records.

Stanford is listed by *Forbes* magazine as the 205th richest American, with a fortune of over $2 billion.

The SEC charged that Stanford, working with a group of family members and close friends, carried out the fraud by preying on investors with false promises of high rates of return and fabricated records of performance for the bank's certificates of deposit, for which it claimed double-digit returns over a span of 15 years.

According to the SEC, the bank's investment committee consisted of Stanford, his father, who resides in their hometown of Mexia, Texas, another Mexia resident whose sole "business experience" was in cattle raising and car sales, Pendergest-Holt, who had no previous securities or investment experience, and Davis, who was Stanford's college roommate.

The bank sold approximately $8 billion of the phony CDs, while carrying out a related mutual funds scam worth approximately $1.2 billion, the SEC charged.

While SIB assured its clients that their funds were invested in "liquid" financial assets and therefore could be quickly redeemed, at least 90 percent of its claimed investment portfolio "resides in a black box" without any independent verification, the SEC charged. It further said that the bank had placed some of the money in real estate and private equity, that is, "illiquid" assets that cannot be quickly sold. Also, while the bank told clients that their investments were not at risk from the collapse of Bernard Madoff's massive Ponzi scheme, it is apparent that SIB had substantial exposure to Madoff's operation.

Rose Romero, director of the SEC's Fort Worth, Texas regional office, stated, "We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world."

Indeed, the reach of those tentacles was evident Wednesday in the form of runs on banks in various parts of the Western Hemisphere.

In Antigua, where Stanford's operations represented the island's largest employer, Prime Minister Baldwin Spencer appealed for calm as small investors lined up outside the bank throughout the day Wednesday to withdraw their deposits. Spencer said the fraud revelations had "profoundly serious implications" for the Caribbean country and threatened "catastrophic and immediate consequences."

In a statement issued Wednesday, the Antigua and Barbuda Bankers Association warned that a continued run on the Stanford bank could destabilize the island nation's entire financial system. In 2006, the Antiguan government knighted the Texas businessman, allowing him to call himself "Sir Allen."

A similar depositors' panic was seen in Venezuela, where the government moved to take over the bank and government authorities issued official assurances that the crisis would not engulf the country's entire financial sector. Wealthy Venezuelans accounted for up to $3 billion worth of the CDs sold by SIB, while Latin America as a whole accounted for 75 percent of the sales.

"The public needs to maintain confidence in Venezuelan banks," said Finance Minster Ali Rodriguez. "This is an immediate takeover. The problem facing Stanford is separate from the Venezuelan financial system."

The governments of Peru, Panama and Colombia likewise took over Stanford's banking operations in those countries as massive withdrawals threatened them with collapse.

In what was apparently a more sinister side of Stanford's Latin American operations, ABC News reported Thursday that the FBI is investigating Stanford's alleged involvement in money laundering for the Gulf Cartel, one of Mexico's most notorious drug syndicates. Mexico reportedly accounted for some 20 percent of Stanford's CD sales.

Citing US officials, ABC reported that after Mexican authorities detained one of Stanford's private planes last year, "checks found inside the plane were believed to be connected to the Gulf cartel, reputed to be Mexico's most violent gang." The television network said that Stanford could face criminal charges of money laundering and bribing foreign government officials.

As with Bernard Madoff's $50 billion Ponzi scheme, the charges against Stanford have raised questions about how he was able to perpetuate the alleged fraud for so long despite ample evidence that he was running a financial scam.

Among the red flags noted in the SEC legal papers was the fact that Stanford's company reported identical returns for its investment in 1995 and 1996 of exactly 15.71 percent, a virtual statistical impossibility.

According to *BusinessWeek*, "There were warning signs about Stanford as far back as the early 1990s." It pointed to lawsuits and public arbitration cases brought by a number of former employees of the bank, including a 2006 lawsuit charging Stanford with running a "Ponzi scheme, or pyramid scheme." The suit was settled out of court for an undisclosed sum.

The bank was repeatedly fined for providing false information to clients about returns on investment and past performance, but the amounts it was forced to pay, between $10,000 and $30,000, represented an inconsequential cost of doing business. The FBI had also reportedly opened a money laundering investigation against Stanford, but it failed to produce any charges.

While US officials have acknowledged that there had been strong suspicions about Stanford's financial dealings for at least 15 years, the decision to undertake a serious investigation came only after the Madoff fraud was exposed late last year.

It is inconceivable that Stanford could have carried out his operation with impunity for so many years outside of complicity at the highest levels of the US government.

The *Washington Post* quoted an SEC official in Fort Worth as reporting that after beginning an earlier investigation, "the SEC 'stood down' at the request of another federal agency."

If Stanford enjoyed political cover, it was because he had paid handsomely for it. He had personally given nearly $1 million to US politicians since 2000, with 78 percent of it going to Democrats.

Between its political action committee and its employees, Stanford Financial Group made $2.4 million in campaign donations to federal candidates and party committees. The firm spent nearly $5 million more over the past nine years on lobbying Congress for favors to the offshore banking industry.

Among the biggest campaign fund recipients were: Senator Bill Nelson, Democrat from Florida; Representative Pete Sessions, Republican from Texas; Senator John McCain, Republican from Arizona; Senator Christopher Dodd, Democrat from Connecticut; Senator John Cornyn, Republican from Texas and Senator Charles Schumer, Democrat from New York.

Barack Obama took $4,600 from Stanford for his presidential campaign, while his former rival and now secretary of state, Hillary Clinton, took $6,900.

The firm also paid for large numbers of Congress members and their staff to go on Caribbean resort junkets, supposedly for seminars on the region's financial industry, and loaned out its private jet for lawmakers' use.

The intimate relations enjoyed by Stanford with those at the top of the Washington political establishment is indicated by a video posted on the Stanford Group web site of an "international leadership forum" sponsored by the fraud-plagued banking firm at the Democratic convention last August in Denver.

The video records House Speaker Nancy Pelosi exchanging a hug with Stanford, and former President Bill Clinton thanking "Sir Allen," along with the participation of Democratic Party Chairman Howard Dean, former secretary of state Madeline Albright and other leading figures, all assembled under the logo of an institution that has now been charged with running a giant Ponzi scheme and laundering drug money.

Nothing could expose more clearly the corruption pervading the entire American capitalist system, in which every layer of the ruling elite and the leading figures in both of its major political parties are implicated in the financial parasitism and fraud that have now given way to the deepest economic crisis in modern history.