

# Federal regulators covered up Ponzi scheme at Stanford bank

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The US Securities and Exchange Commission (SEC) ignored warnings from a former employee of Stanford Group six years before the federal regulatory agency seized the offshore investment firm and charged Texas billionaire Robert Allen Stanford with running an \$8 billion Ponzi scheme. The implosion of the company in February 2009 hit 20,000 investors worldwide, including many who have lost their life savings, and sparked a wave of panic at the banks owned by the financier.

Earlier this year, Stanford Group was put under federal receivership after regulators accused Stanford of promising what the SEC described as “improbable and unsubstantiated” returns on Certificates of Deposits (CDs) at the company’s unregulated Stanford International Bank based on the Caribbean island of Antigua. Stanford, who is in jail awaiting trial on 21 criminal counts, paid off old investors with deposits from new investors, the government has charged.

On Wednesday, Leyla Wydler, a former Stanford Group financial adviser, told a Congressional field hearing in Baton Rouge, Louisiana that she informed security regulators at the SEC in 2003 and 2004 that Stanford was running an illegal scheme.

Wydler, who was hired in 2000, told the Senate Banking Committee that she was fired in 2002 for refusing to push the fraudulent CDs on her clients. “The financial advisers who sold CDs were praised and compensated for doing so, and those who did not sell the CDs were fired,” she said.

During this time, Wydler—a financial advisor and vice-president—repeatedly pressed company officials for an appraisal of the actual value of Stanford International Bank’s assets but was denied the information.

In late 2003, Wydler issued an anonymous complaint

to the SEC, warning that Stanford was operating a Ponzi scheme “that will destroy the life savings of many, damage the reputation of all associated parties, ridicule securities and banking authorities, and shame the United States of America.”

The complaint also said it appeared that “returns and expenses are being paid out of clients’ monies, and by the size of the portfolio, this would be one of the largest Ponzi schemes ever discovered.”

In 2003, Wydler also made a claim of wrongful termination and under the Whistleblower Act requested that the finance industry’s own internal monitoring body—the Financial Industry Regulatory Authority (FINRA)—investigate her charges of fraud.

In 2004, she made another complaint to the SEC, without resorting to anonymity. During discussions in September and December 2004 with two SEC officials at the commission’s regional office in Fort Worth, Texas, Wydler provided the SEC with copies of many of her emails and other information. They also discussed the fact that CDs were actually securities, which gave the SEC jurisdiction over Stanford’s affairs.

It wasn’t until nearly four years later—in January 2009—that she was contacted by the SEC again. Stanford imploded a month later.

“Most of my concerns of 2003 have been confirmed,” she told the congressional hearing, making it clear that if the government had acted on her warnings thousands of investors could have avoided the catastrophe they are now confronting.

Some 400 Stanford investors in the crowded hearing room gave her a standing ovation as she testified. In Louisiana alone, primarily Baton Rouge and Lafayette, the losses are estimated to be \$1 billion.

Several ruined investors also testified. “These

agencies along with Stanford have robbed me of my American dream,” Craig Nelson, a 55-year-old resident of Magnolia Springs, Alabama, said. “I feel the US government is responsible for my loss.”

Troy Lillie, a retired Exxon Mobil refinery worker from Maurice, Louisiana, said he invested his retirement savings in Stanford CDs after getting recommendations from fellow workers at the refinery where he worked for decades. On top of the “humiliation” of losing the money, Lillie said he was deeply disappointed that regulators had failed to prevent it. “The system absolutely has failed us,” he said.

“I have been working 14 hours per day on an offshore oil platform in the Gulf of Mexico for two weeks at a time to try to make ends meet,” Lillie told a local news station WBRZ. “This is a difficult thing to do at this point in my life... with a heart condition and pacemaker.”

Adding insult to injury, Ralph Janvey, who was appointed at the request of the SEC to oversee the affairs of the Stanford group, has sought to sue 650 innocent investors, including Lillie, who retrieved some of their principal prior to February, in order to use it in an eventual monetary settlement in the case.

In addition, Janvey is asking a federal judge in Dallas to approve \$27 million in salary and expenses for his receivership team of lawyers, accountants and investigators. That money would be paid out of the receivership estate.

All evidence points to the fact that federal regulators deliberately covered up the illegal and reckless operations carried out by the Stanford Group. Last month, the SEC’s internal regulatory agency claimed its efforts to pursue Stanford had been hampered by the “lack of cooperation” by the Texas billionaire and the head of Antigua’s financial regulator.

Such an explanation strains credulity. Baton Rouge lawyer Ed Gonzales represents several Lafayette-area Stanford investors and is demanding that the SEC release all of its records in the case. He was quoted by WBRZ as asking, “How is it that the SEC took five years and five months to shut down the securities dealer that was acquiring investor money for (Stanford International Bank) at the rate of more than \$1 billion per year?”

The SEC’s collusion with Stanford is strikingly

similar to its treatment of Bernard Madoff. Before the arrest and prosecution of the 70-year-old stockbroker and investment advisor, Madoff had been subjected to nearly a dozen SEC investigations. At least one Wall Street whistleblower had consistently urged a thorough probe of his operations, declaring in one letter that Madoff was operating “the world’s largest Ponzi scheme.” His fraud was uncovered only when he could no longer keep it going, and he decided to confess and turn himself in to the authorities.

Far from checking their activities, the SEC and every other government agency has encouraged the most reckless forms of financial speculation over the past two decades, of which the Ponzi schemes of Madoff and Stanford are only the logical outcome. The rise of such criminality to the heights of American capitalism is the inevitable result of decades in which the ruling elite has decimated basic industry, wiped out the jobs and living standards of millions of workers and consolidated the economic and political grip of a financial aristocracy.



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