



## Allen Stanford's Terrible Wake: Broken Victims and Failed Regulators

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*This is part three of a four-part series on the crimes of global financier Allen Stanford. For part one of the series, [click here](#).*

If any one statement sums up the gut-wrenching experience of Stanford Financial's victims, it's Angela Shaw's lament: "It's sad as a Stanford investor to wake up each day and think today I hope I can be as lucky as a Madoff victim."

Shaw is the director of the Stanford Victims Coalition and her comment captures the fact that while those left in Bernie Madoff's wake have gotten a lot more media coverage, the investors kneecapped by Allen Stanford's con may be left in much worse shape. But in a striking similarity to Madoff's case, the magnitude of the disaster could have been far less if regulators hadn't completely, utterly dropped the ball.

### From Antigua with love

Though Stanford Financial Group was headquartered in Houston, much of Sir Allen's play money came from outside of the U.S. The Antigua-based Stanford International Bank was the fraudulent lynchpin and the company set up offices in Venezuela, Panama, Peru, Ecuador, and Mexico. The bank had some 30,000 clients across more than 130 countries. Venezuela was one of the company's larger targets. When Stanford's Venezuelan bank was seized in 2009, it was reported that locals had \$2.5 billion tied up in sham Stanford CDs.

Due to the difference between Madoff's hedge fund scheme and Stanford's certificate of deposit ploy, there was a significant disparity between the victims of the two frauds. Madoff's clients included investment companies, nonprofits, and wealthy elite like British bank **HSBC** (NYSE: [HBC](#)), New York University, Steven Spielberg, and Zsa Zsa Gabor. It could be argued that Madoff's victims -- or at least their financial advisors -- should have known better. They may have also been in a better position to afford the losses. Not so the regular folks who were duped into buying Stanford's bogus CDs.

[The Stanford Victims Coalition USA](#) describes itself as:

We are American citizens from 46 states. We are retirees, teachers, parents, grandparents, hard workers and positive contributors to our society. We are collateral damage. Caught between the "massive ongoing fraud" alleged in the Stanford case and the lack of timely government action that would have saved us from financial devastation.

Video on the coalition's website shows 71-year-old retiree Byron Ratliff who, along with his wife, were wiped out by the Stanford mess. "At our age," Ratliff said, "go out and try to find a job." He pauses, fighting back tears. "It's next to impossible. So my plea is: We need help."

Recovering funds has thus far gone relatively well for Madoff victims. The website for the Madoff liquidation touts \$9.1 billion in "recoveries and settlement agreements," \$333 million in funds distributed to investors, and more than \$800 million committed by the Securities Investor Protection Corporation (SIPC, pronounced sip-ICK). That's significant compared to the \$18 billion

in actual losses estimated by the Madoff estate's trustee.

As Angela Shaw's pithy assessment highlights, the same can't be said for Stanford victims. Looking simply at the raw numbers of potential recoveries reported by the trustees of both receiverships compared to the actual losses, Madoff victims could be looking at recouping as much as \$0.50 on the dollar, while it could be more like \$0.15 for those taken by Stanford.

The receiver in the Stanford case has been busy liquidating assets including real estate, cars, and Stanford's prized Sea Eagle yacht. In the June 22 report filed by Stanford's trustee, there was slightly more than \$1 billion in "major receivership assets" that could be recovered. However, much of that -- roughly \$660 million -- is based on litigation claims that may or may not pan out. Meanwhile, receivership operations of this scope don't come cheap and through the end of May, expenses and professional fees had eaten up more than \$100 million of the \$220 million in cash that had been recovered. Further millions have been held back as a reserve for future legal fees.

The recovery effort did get a boost when the jury that convicted Stanford also gave the go-ahead to reclaim more than \$330 million in accounts in Canada, England, and Switzerland. Those funds had previously been considered "uncertain assets." Even so, the current tally will likely mean a slow, grinding process for investors to recover pennies on the dollar.

Perhaps most distressing for Stanford victims is the fact that the SIPC backstop that plugged hundreds of millions into the Madoff disaster may not be there for Stanford sufferers. Though the Securities and Exchange Commission has sued SIPC to compel it to step in, SIPC has fought back tooth and nail. SIPC is authorized to pay out up to \$500,000 to protect investors from failed brokers, but it's asserted that its mission is not to protect investors against bad investments -- like offshore bank CDs -- even if it's the result of fraud.

### **Asleep at the wheel**

Though it's arguable whether SIPC is failing U.S. investors in the Stanford debacle, what's all too clear is that the SEC was utterly toothless in dealing with Stanford's decade-plus fraud. A withering [151-page report](#) filed in 2010, concluded that the SEC's Fort Worth, Texas, enforcement division failed to act on significant evidence of fraud that stretched back years.

In fact, it took them only two years to figure out that Stanford Group "was likely operating a Ponzi scheme." But it took them nearly a decade to actually do something about it. According to the Office of Inspector General's report:

We found that over the next eight years, the SEC's Fort Worth Examination group conducted four examinations of Stanford's operations, finding in each examination that its sale of CDs through [Stanford International Bank] could not have been "legitimate," and that it was "highly unlikely" that the returns Stanford claimed to generate could have been achieved with its purported conservative investment approach.

### **Why would an SEC enforcement arm fail to act on strong suspicion of wide-ranging fraud?**

Because it looked like it'd be too hard. Seriously.

Members of the division apparently viewed the size of Stanford's empire and messy tangle of offshore entities as an impediment to an open-and-shut case that they could file away as a quick win. From the OIG's report:

We found evidence ... that SECwide institutional influence within Enforcement did factor into its repeated decisions not to undertake a full and thorough investigation of Stanford, notwithstanding staff awareness that the potential fraud was growing. We found that senior Fort Worth officials perceived that they were being judged on the numbers of cases they brought... As a result, cases like Stanford, which were not considered "quick-hit" or "slam-dunk" cases, were not encouraged.

In light of the findings, the OIG recommended changes, including the revolutionary idea that addressing large, difficult cases that have the potential to impact many investors should be considered when evaluating the performance of staff members.

Should the proposed changes offer any comfort at all to Stanford victims, it's as cold as it comes.

If *Schadenfreude* is any more appetizing to those left in Stanford's wake, there's a good deal of that for them to revel in. If Stanford's rise from young, brash Texan to Caribbean banking king seemed like a dream, his fall to penniless, depression-ridden inmate was the stuff nightmares are made of. [Click here](#) for the conclusion.

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