

SEC charges Stanford, others with fraud

Agency alleges schemes dealing with CDs, mutual fund

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Steve Campbell Houston Chronicle
Kelly DeHay, an investor with Stanford Financial Group, talks to reporters. "I feel betrayed. I'm not angry, just very betrayed," he said.

- [See PDF file of the charges](#)
- [Web site for Stanford Financial Group Receivership](#)
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A Texas billionaire and two associates are in

regulators' cross hairs, alongside Houston-based companies and an affiliated offshore bank, accused of perpetuating a multibillion-dollar fraud that could sting investors worldwide.

"We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world," said Rose Romero, regional director of the Securities and Exchange Commission's Fort Worth office, which filed civil charges Tuesday against R. Allen Stanford, the bank, two Houston companies and two company executives, James Davis and Laura Pendergest-Holt.

Romero told Bloomberg News today that regulators don't know Stanford's whereabouts.

U.S. marshals descended early Tuesday upon the firms' offices — on opposite sides of Westheimer just outside the West Loop — to ensure computers, documents and all other assets are preserved.

"We are moving quickly and decisively in this enforcement action to stop this fraudulent conduct and preserve assets for investors," said Linda Chatman Thomsen, director of the SEC's enforcement division.

A federal judge in Dallas issued a restraining order and appointed a receiver to take control of the Stanford Financial Group and its assets. Stanford Financial Group is described on a company Web site as "a privately held global network of independent, affiliated financial services led by Chairman Sir Allen Stanford." Stanford, a Mexia native who holds dual citizenship in the U.S. and in the Caribbean

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island nation of Antigua and Barbuda, has been knighted in that country.

The Web site says the company has more than 50 offices in North America, Latin America, the Caribbean and Europe.

The SEC alleges that Stanford International Bank in St. John's, Antigua, acting through Houston-based investment advisers Stanford Group Co. and Stanford Capital Management, sold \$8 billion in "self-styled" CDs by promising double-digit returns that exceed those available through CDs offered by traditional banks.

Regulators also allege a \$1.2 billion scheme in which Stanford Group Co. advisers used false performance data to solicit clients to invest in a mutual fund program called Stanford Allocation Strategy. That data also was used to recruit registered investment advisers with significant client lists, who then pushed their clients to invest in the bank's CD program.

Legal paperwork did not identify lawyers for the defendants. Washington attorney Tom Sjoblom informed the SEC last week that he and his firm, Proskauer Rose, had resigned as the bank's counsel, according to a memorandum filed alongside the complaint.

Sjoblom couldn't be reached for comment.

Stanford Group spokesman Brian Bertsch declined to respond on behalf of the individuals or the companies, referring all questions to the SEC.

The SEC had been looking into Stanford companies for months, even before two former employees filed a suit in Houston last year alleging they had been terminated for questioning company activities, said Steve Korotash, associate regional director of enforcement in the SEC's Fort Worth office.

"We ran into a lot of impediments, particularly given the foreign jurisdictions," Korotash said in an interview. Investigators only recently saw certain holdings of the bank that helped them develop the allegations in the complaint, he said. "The whole thing was a masterfully done masquerade," Korotash said.

Besides Houston, he said, marshals went to company offices in Memphis, Tenn., and Tupelo, Miss.

The FBI and Internal Revenue Service also are investigating, a person familiar with the probes told the Chronicle last week.

The restraining order freezes assets at the bank, the U.S. businesses and those of the three individuals, including their passports. It also prohibits any destruction of documents.

The order said there was "good cause" to believe the defendants improperly obtained investor funds and assets and would dissipate them, and that they might try to flee the United States. Romero declined to say whether the defendants were personally served with the complaint.

The SEC complaint said Davis is the chief financial officer of Stanford International Bank

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and Pendergest-Holt is its chief investment officer.

According to the complaint, Stanford lives in St. Croix, U.S. Virgin Islands. It said Davis lives in Baldwin, Miss., and works in Tupelo and Memphis. It didn't identify Pendergast-Holt's residence, but said she supervises analysts in Memphis, Tupelo and St. Croix.

As the appointed receiver, Dallas attorney Ralph Danvey has sole control over the businesses, books, records, client lists, financial and accounting documents and computers. He also can hire and fire employees, contractors, officers and directors.

Houston lawyer Tom Ajamie, who specializes in financial cases, said Stanford investors may have to wait up to two years for invested money now under the receiver's control because an offshore bank is involved, he said.

After U.S. marshals went to the Stanford offices Tuesday, its doors were locked and a sign was posted saying that updates would be posted on the Internet. The offices remained locked today and entrances to parking garages blocked, with little evidence of activity or personnel except for security guards.

The Web site still contained only links to the SEC documents and referred inquiries to the SEC.

Investor Brett Zagone visited the office Tuesday after she couldn't reach her investment adviser

by phone, and tried unsuccessfully to speak with someone at the office.

She declined to say how much she invested, but said most of it was in CDs.

The SEC alleged the defendants falsely claimed that CD funds were invested primarily in safe liquid assets when in fact they mostly were in illiquid real estate and private equity.

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