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Stanford Accused of a Long-Running Scheme

By [JULIE CRESWELL](#) and [CLIFFORD KRAUSS](#)

Late last fall, one of [Stanford Financial Group](#)'s top salesmen in Miami sent a frantic e-mail message to Laura Pendergest-Holt, the chief investment officer for the brokerage firm. A client with \$20 million in Stanford's Antigua-based bank affiliate had grown nervous about its financial safety and wanted to withdraw his money.

In truth, the funds were far from secure. Inside the Stanford empire, [Robert Allen Stanford](#) and his chief lieutenant, James M. Davis, were preparing to sell off large chunks of the bank's investment portfolio and move hundreds of millions of dollars in and out of the bank's three-tiered structure.

But Mrs. Pendergest-Holt, who had been groomed for a role at Stanford since the age of 15 by Mr. Davis, a patriarch from their hometown of Baldwyn, Miss., told the salesman he could report that nothing was wrong and that his client's assets were safe.

On Friday, the Securities and Exchange Commission accused Mr. Stanford and Mr. Davis of executing a "massive [Ponzi scheme](#)" over the last decade, in which they misappropriated funds and made more than \$1.6 billion in "bogus" loans to Mr. Stanford. The agency, in a revised complaint, also accused the men of falsifying financial statements to investors who bought \$8 billion worth of certificates of deposit whose large returns turned out too good to be true.

Also Friday, Mrs. Pendergest-Holt appeared at a bail hearing in Houston after the [F.B.I.](#) arrested her for obstructing the S.E.C.'s inquiry into one of the largest suspected international financial frauds to come to light. Authorities say she failed to reveal the extent of her knowledge about where as much as \$5 billion of the banks' assets were when she testified before the agency in early February. Her defense lawyer, Dan Cogdell, said she would plead not guilty when she is arraigned in Dallas, where the criminal charge was filed. He said there was "no proof" she did not cooperate with investigators.

The government lawyer, Paul Pelletier, said, "She is one of three people who had access to \$6 billion now missing to investors."

Numerous interviews with former Stanford employees and testimony provided in court documents indicate that over time, top managers surrounded themselves with a team of friends, family and acquaintances who had little financial experience, but were as close-knit as the small Southern towns from which several of them came. On Friday, the S.E.C. said these ties created an environment that left "no independent oversight" over the Antigua-based bank's assets.

Indeed, the comfortable relationships meant that Mr. Stanford and Mr. Davis were almost never questioned about what they were doing with the money, according to Stanford employees.

In earlier testimony to the S.E.C., Mrs. Pendergest-Holt said that only Mr. Stanford and Mr. Davis knew the status of billions of dollars stashed in an opaque part of the bank's portfolio known as Tier III. Tier I, roughly 10 percent of the bank's assets, was in cash, and Tier II, another 10 percent of assets, was overseen by Mrs. Pendergest-Holt and invested with more than a dozen fund managers worldwide.

According to the F.B.I., however, only four days before testifying, Mrs. Pendergest-Holt gave a presentation in Stanford's Miami office that was attended by Mr. Davis, as well as a number of Stanford executives and an unidentified outside lawyer representing Stanford Financial. The purpose of the meeting was to discuss the financial details she would need to present in her testimony to the S.E.C.

According to the F.B.I. affidavit, during the meeting "executive B," or Mr. Davis, gave her a data drive showing that the Tier III asset group included more than \$3 billion in real estate holdings and \$1.6 billion that turned out to be a "loan to shareholder," believed by those present to be Mr. Stanford. The information shocked and upset a number of executives present, all of whom had been told time and again that the firm's investments were legitimate. A number of them are now cooperating with government investigators.

In her S.E.C. testimony, however, Mrs. Pendergest-Holt did not reveal these details, despite repeated questioning. Thomas V. Sjoblom, a lawyer with Proskauer Rose who represented the firm and who was present during Mrs. Pendergest-Holt's testimony before the S.E.C., withdrew his counsel the day after her testimony. Two days later, Mr. Sjoblom, who had spent 20 years with the S.E.C. before entering private practice, disavowed all previous oral and written representations he had made to the S.E.C. on behalf of the firm.

Calls to Mr. Sjoblom's offices were not returned. Mr. Stanford and Mr. Davis, who have not been criminally charged, could not be reached for comment.

Mrs. Pendergest-Holt's ties and loyalty to Stanford Financial appear to run deep. She married James Holt, who ran a hedge fund that managed a portion of the assets held at the Antigua bank. Her brother-in-law helped oversee a team of 20 analysts that monitored the performance of various asset managers.

"She was definitely being mentored by Mr. Davis to take on more responsibilities," said a senior vice president who declined to be named because he still works for Stanford.

The two had adjoining offices in Memphis, a financial hub for the Stanford empire, where Mr. Davis would sometimes commute from his home in Baldwin, about 120 miles away, on one of the company's private jets, according to a former employee. Mrs. Pendergest-Holt, whose first cousin worked as Mr. Davis's secretary, monitored a small portion of the supposed \$8 billion in assets in Antigua from the Memphis office. Mr. Davis also cultivated at least four other employees from Baldwin since their teenage years, according to residents.

Mr. Davis and Mr. Stanford, who met at [Baylor University](#), have vastly different personalities that led to a natural split in duties at the firm.

“Stanford had the personality to get out there. Mr. Davis handled the money,” said a former managing director for the bank. An elegant man with a shock of white hair, Mr. Davis projected a wholesome image, drinking protein shakes and regularly working out in the gym or jogging, according to the former employee. Mr. Davis was also known as a deeply religious man, opening many Stanford Financial meetings with a prayer that Stanford executives would make the right investment decisions, according to another former financial adviser.

Mr. Davis had a similar reputation in his hometown, where he played a key role in civic and religious life. Several years ago, Mr. Davis started the breakaway LifeWay Community Church, while his wife continued to attend the Baptist church he had attended for years.

Mr. Davis met Mrs. Pendergest-Holt through the Baptist church when she was young — around 15 years old. Tall and friendly, Mrs. Pendergest-Holt joined Stanford Financial in 1997 right out of college, where she studied mathematics.

“She is an active, faithful member of our church, very nice, very well thought of,” said Stanley Huddleston, pastor of First Baptist Church in Baldwin.

Yet last year, when the firm began actively selling off the securities and funds it held in the second tier of its portfolio, Mrs. Pendergest-Holt faced sharp questions as suspicions mounted among some analysts within the firm. Some noticed large rounds of withdrawals occurring at the bank. In mid-November, the bank withdrew \$100 million and then another \$100 million two weeks later and \$50 million two weeks after that.

In addition, some \$541 million in new capital that the Antigua-based bank claimed to have injected in fact turned out to be based on assets the bank had already purchased in 2008 for \$88.5 million, according to court documents. That had been revealed during the meetings in Miami leading up to Mrs. Pendergest-Holt’s testimony before the S.E.C.

Later, when asked again by the S.E.C. about the Tier III holdings, Mrs. Pendergest-Holt responded: “If I knew anything about Tier III, I’d tell you ... God’s honest truth.”

John Branston contributed reporting from Baldwin, Miss.

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