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Florida regulators failed to stop Stanford's Miami operation

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Desperate to prop up Allen Stanford's financial empire, his Miami brokers jetted to South America with a sales pitch they said would deliver gold to investors: Invest in the Miami bank and reap spectacular returns.

There was just one catch: Stanford didn't have a bank in Miami.

When regulators in Ecuador caught wind of the scheme in 2005, they banned Stanford's employees from selling their prime investments and threatened legal action.

But in Florida, where Stanford's operation was rooted, regulators weren't even watching.

Florida investigators, in fact, were among the slowest in responding to the massive fraud that prosecutors say fleeced $7 billion from investors around the world -- most of the money now missing.

The crisis in Ecuador revealed major breakdowns in Florida's enforcement system at a time the Miami office was generating hundreds of millions a year for Stanford's questionable ventures, The Miami Herald found.

It exposed the office's heated campaign to recruit new clients -- and raise millions -- while breaking state banking laws.

And it shook the foundation of Stanford's financial network years before it was shut down by federal agents.

For years, brokers from the Miami office flew to Ecuador, cutting deals and sending the money to Stanford's Antiguan bank -- the records later shredded at the Miami office.

``They were breaking our laws,'' said Diego Garcés, a lead agent for the Ecuador agency that investigated the case.

The Miami center opened under a special arrangement with Florida regulators in 1998 as a foreign trust representative office -- the only one of its kind.

Because the unit was allowed to operate without any regulation -- including fraud checks -- there was no crackdown in Florida, records show.

By the time the criminal case broke open this year -- including Stanford's arrest in June -- the Miami office had generated nearly $1 billion.

Like many of Stanford's offices, the Miami center excelled in the sale of Stanford Group Company's key investment: certificates of deposit.

But to maintain the lucrative returns promised on the CDs, as much as 2 percent over competitors, Stanford needed a constant stream of money from new investors to pay off the earlier ones.

In 2005, he turned to the Miami office -- a luxury highrise adorned with expensive artwork -- to target new markets in South America.

Stanford had brokerages in South America, but there was an advantage with the Miami office: Agents promised customers the security of investing with a U.S. business.

Because Miami operated without oversight, employees were free to move in and out of countries to sell CDs without disclosing anything to regulators.

``They could do whatever they wanted to do,'' said Gonzalo Tirado, 39, president of Stanford's Venezuelan office. ``There was an astounding lack of controls.''

The sales blitz sparked cut-throat competition among the Stanford offices, prompting a flurry of angry phone calls between office managers.

``They terrorized customers,'' Tirado said. ``They told them, `Look, if you have your money in Venezuela, the government is going to know about it. If you have it in Miami, that's not going to happen.' ''

Miami brokers swept into Ecuador at least a dozen times in 2005, said Norta Llana, the Miami office administrator.

The battle with regulators in Ecuador started when officials got hold of one of Stanford's mailings. The letter not only boasted of the glowing returns on Stanford's CDs, but claimed the Miami office was a bank.

``They went crazy,'' said Steven Riger, 63, a vice president at the Miami office.

The letter said Stanford was the second largest bank in Ecuador -- a totally false claim.

Ecuador eventually banned Stanford brokers from selling CDs -- the main source of Stanford's income -- and expansion plans in Peru and Colombia were halted.

Word began to spread among regulators in other South American countries about Stanford's problems, Tirado said.

In the ensuing investigation, agents found the mailing was not only misleading, but Miami employees jetting to Ecuador were routinely breaking the law by taking deposits and leaving the country without reporting anything.

The probe sparked tense negotiations between Stanford's advisors and Ecuadorean regulators.

Riger, the former Stanford Miami executive, said several of Stanford's top brokers pleaded with him to find a way to keep the Ecuadorean business afloat.

``They were really shook up about this,'' Riger said. ``They were trying to save a book of business in Ecuador.''

While Ecuador's banking agency investigated Stanford, a second agency found the existing brokerages in Ecuador were reaping illegal commissions.

In December 2005, that agency imposed a $2,628 fine and declared most of Stanford's business practices illegal.

Garcés, the Ecuadorean agent, said Stanford's lawyers appealed the decision by the Superintendencia de Companias, but the order was upheld.

Despite the ban on CD sales, the Miami office continued to bombard residents with mailings and e-mails pushing the sales, said Santiago Noboa, a regulator who investigated Stanford.

``We couldn't stop the letters,'' he said.

In addition, the mailings -- sent to other South American countries -- spurred outrage in Stanford's foreign offices.

Tirado, who was dismissed by Stanford in a bitter employment dispute in late 2005, said he was alarmed because Miami brokers were not checking the backgrounds of customers.

He described a heated conversation with Miami office director Nelson Ramirez: ``I called Nelson and told him, `Don't do that, grow only by referral. You don't know who you're sending mail to. Be careful. If you open an account for a politically exposed person or money launderer, you will get in trouble.' ''

Ramirez did not respond to repeated requests for an interview.

Eventually, regulators let Stanford resume his business in Ecuador without further sanctions while Colombia let Stanford open his brokerage the following year.

Throughout the crisis, the company dodged U.S. regulators.

Under federal law, firms that get into trouble selling securities overseas must report the problems on their regulatory records. But Stanford's brokerage failed to disclose the crackdown, and the Miami office -- running without any regulatory controls -- did not have to file anything. ``It was a black hole,'' said Mark Raymond, a Miami lawyer representing investors.

Several securities lawyers said such disclosures often spark investigations by regulators in this country.

But nothing happened in Florida.

Linda Charity, acting commissioner of Florida's Office of Financial Regulation, said the state's authority was restricted by the agreement it struck with Stanford a decade ago. ``We really couldn't do anything,'' she said.

But under the law, state agents are empowered to probe any company they believe is violating banking and securities statutes.

During a key visit by Florida examiners in 2005 -- while Stanford was under investigation in Ecuador -- agents found employees shipping checks to Antigua, marked as deposits, and shredding the records left behind. No investigations were launched.

Under Florida statute 655, only licensed companies can take deposits, and anyone violating the law is subject to a felony charge.

``The state had the right to go in there,'' Raymond said. ``As soon as it saw what was going on, it should have issued a subpoena.''

Charity said the state began probing the office after a 2007 visit turned up ``red flags,'' but her agency took no enforcement action. She declined to give details of the visit.

Jonathan Winer, a former U.S. deputy assistant secretary of state, said the breakdowns began when Florida struck the deal with Stanford in 1998.

Once in charge of money laundering investigations in the Caribbean, Winer said he remembers when the agreement was reached.

``At the time, I was totally perplexed. I wasn't in the business of questioning state regulators. I presumed they knew what they were doing,'' he said. ``I am disgusted that the state of Florida let this happen.''

Raymond said the events in Ecuador offer a stark contrast in regulatory actions. ``Their regulators did what we didn't do,'' he said. ``We supposedly are the gem of banking regulatory systems, but in the end, we dropped the ball.''

Miami Herald staff writer Luis Andres Henao contributed to this report.

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