



Office of Thrift Supervision
Department of the Treasury

1700 G Street, N.W., Washington, D.C. 20552 • (202) 906-6000

November 9, 1993

MEMORANDUM FOR CHIEF EXECUTIVE OFFICERS

FROM: Jonathan L. Fiechter
Acting Director

J. Fiechter

SUBJECT: Interagency Advisory on "Prime Bank" Notes,
Guarantees and Letters of Credit

The enforcement staff of the Federal financial institution regulatory agencies have noted the use, or attempted use, of questionable financial instruments in connection with complex, and possibly illegal, schemes. The questionable instruments are often denominated as "Prime Bank Notes," "Prime Bank Guarantees," or "Prime Bank Letters of Credit." The attached Interagency Advisory describes these instruments and the associated transactions and provides guidance for institutions that become aware of such transactions. Please review the Advisory and share it with appropriate staff.

Attachment

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision**

October 21, 1993

Interagency Advisory

**WARNING CONCERNING "PRIME BANK"
NOTES, GUARANTEES, AND LETTERS OF CREDIT
AND SIMILAR FINANCIAL INSTRUMENTS**

The enforcement staffs of the federal financial institutions supervisory agencies, who work with federal law enforcement officials responsible for investigating and prosecuting bank fraud-related matters, have noted an increase in the use, or attempted use, of questionable financial instruments in connection with complex, and possibly illegal, schemes. Many of these schemes have been aimed at defrauding borrowers and investors in the United States and abroad, as well as domestic and foreign banks. The questionable instruments are often denominated as "Prime Bank Notes", "Prime Bank Guarantees", or "Prime Bank Letters of Credit". They are also called by such other names as "Prime European Bank Letters of Credit", "Prime World Bank Debentures", or "Prime Insurance Guarantees".¹

Over the past several years, federal and state law enforcement authorities have prosecuted, or are presently in the process of investigating, wrongdoers who have defrauded individuals and entities by promising, for example, to arrange loans that would be funded in some manner by "Prime Bank"-types of financial instruments, or would, in some other way, involve such instruments and advance loan fee payments. Many of the illegal or dubious schemes that have been brought to the attention of various regulatory agencies by law enforcement officials, foreign banks, the World Bank, and central banking authorities appear to involve overly complex loan funding mechanisms necessitating the use of "Prime Bank"-type documents. Other suspicious schemes involve "investments" in "Prime Bank"-type financial instruments and promises of unrealistic returns on multi-million dollar investments. In many recent situations, the agencies have been advised that individuals have been improperly using the names of large, well-known domestic and foreign banks, the World Bank, and central banks in connection with their "Prime Bank" schemes. When contacted by potential borrowers, investors or regulators, the institutions had no knowledge about the unauthorized use of their names or the issuance of anything akin to "Prime Bank"-type financial instruments.

¹These and similar financial instruments were the subject of prior regulatory agency alerts issued by the Office of the Comptroller of the Currency. These included the Office of the Comptroller of the Currency's Banking Circular BC-141, Supplement 2, dated July 14, 1982, several subsequent supplements to BC-141, and BC-243, dated February 7, 1990.

Because the staffs of the federal bank, thrift and credit union regulatory agencies are not aware of any legitimate use of any financial instrument called a "Prime Bank" note, guarantee, letter of credit, debenture, or similar type of financial instrument, you should be alert to the potential dangers associated with any transaction involving these types of instruments.² Likewise, you should be attentive to the attempted use of any traditional type of financial instrument--such as a standby, performance or commercial letter of credit--that is somehow referred to in an unconventional manner, such as a letter of credit referencing forms allegedly produced or approved by the International Chamber of Commerce. Examples of these include bogus schemes involving the supposed issuance of an "ICC 3034" or an "ICC 3039" letter of credit by a domestic or foreign bank.

The staffs of the regulatory agencies, in cooperation with the Department of Justice, the Federal Bureau of Investigation, the U.S. Secret Service, and the Securities and Exchange Commission, want to alert you to this situation and request that, in the event you become aware of any transaction involving any of the aforementioned types of financial instruments, you advise one of the following federal regulatory agency officials:

Board of Governors of the
Federal Reserve System
Deputy Associate Director
Enforcement and Special
Investigations Sections
Division of Banking Supervision
and Regulation
Mail Stop 175
Washington, D.C. 20551
(202) 452-2620
(202) 736-5641 (fax)

National Credit Union Administration
Office of the General Counsel
1775 Duke Street
Alexandria, Virginia 22314
(703) 518-6540
(703) 518-6569 (fax)

Federal Deposit Insurance Corporation
Chief
Special Activities Section
Division of Supervision
550 17th Street, N.W.
Washington, D.C. 20429
(202) 898-6750
(202) 898-3627 (fax)

Office of the Comptroller of the Currency
Law Department
Enforcement and Compliance Director
250 E Street, S.W.
Washington, D.C. 20219
(202) 874-4800
(202) 874-5301 (fax)

Office of Thrift Supervision
Deputy Director for Regional Operations
1700 G Street, N.W.
Washington, D.C. 20552
(202) 906-6853
(202) 898-0230 (fax)

²There are currently six insured depository institutions with the word "Prime" in their names in the United States. Two of them are commercial banks that operate in Florida, one is a commercial bank in Connecticut, another is a commercial bank in Indiana, and two of them are thrift associations operating in Wisconsin and Pennsylvania, respectively. There is also one bank holding company in Illinois with the word "Prime" in its name. This alert is not associated with any deposit or other type of legitimate debt obligation or financial instrument issued by any of these financial institutions.

Also, if you suspect that a criminal offense is being committed, it is required that you promptly make a criminal referral to the appropriate federal law enforcement agencies in accordance with applicable criminal referral regulations.