

Bank SARs Lead to Discovery of Predatory Certificate of Deposit Fraud Scheme

In order to satisfy fines and restitution ordered as a result of an earlier scheme, two defendants began a new multi-state advertising campaign scheme to attract buyers (mostly elderly) of non-existent certificates of deposits.

As part of the scheme, one of defendants rented office space in one state and hired workers to handle investor inquiries. He also established a mail drop in a distant city to receive investor payments. The mail drop in that city had instructions to forward all mail to a second mail drop in yet another state. Investors mailing payments to that mail drop were told to make the checks payable to another company that was actually a shell company. To convert the investor payments into personal cash, the second defendant opened a series of shell bank accounts. After reviewing transactions related to the accounts, the bank filed a SAR and notified law enforcement.

The bank SAR that initiated the case noted that one of the defendants opened accounts for several businesses that ultimately turned out to be fronts for the fraud scheme. The bank noticed that checks made out to one business were deposited into the account of another business. In addition, the bank believed the transactions in the account were indicative of fraud because there appeared to be no discernable legitimate business activity, only small monthly payments to individuals that appeared to be interest payments.

The SAR narrative described critical elements of the crime in detail. The bank noted that the age of the investors ranged from approximately 60 to 90 years of age, and the checks had notations on the memo lines consistent with the purchase of Certificates of Deposit. The withdrawals from the account were in the form of checks made out to cash in amounts ranging from \$4,000 to \$9,500. And, as indicated, the only activity in one account was small monthly checks to individuals.

Bank staff asked numerous questions of one of the defendants, and his responses reinforced their fears that he operated a predatory fraud scheme aimed at senior citizens. The bank froze one of the accounts with a balance of almost \$400,000. The defendant responded with only a cursory protest and said he would contact his lawyers. The bank explained the circumstances to the defendant's lawyer but the defendant took no further action in the matter.

Law enforcement and prosecutors noted that the SAR proved instrumental in ending the scheme and the funds in the frozen account provided restitution for some victims. The two defendants were sentenced for their roles in the scheme. One received a 30-year prison sentence in exchange for a guilty plea for his role in the two fraud schemes. In addition, he was ordered to pay almost \$5 million in restitution. The severity of the sentence, unusual for white-collar crime with a

plea agreement, stemmed from the defendant's role as leader in both schemes as well as his refusal to account for the stolen funds. His co-defendant also pled guilty and received a sentence of more than 7 years.

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