

ALERT 99-8

Type: Fraudulent Investment Programs

Subject: Fraudulent Municipal Finance Programs

Date: July 26, 1999

TO: Chief Executive Officers of all National Banks; all State Banking Authorities; Chairman, Board of Governors of the Federal Reserve System; Chairman, Federal Deposit Insurance Corporation; Conference of State Bank Supervisors; Deputy Comptrollers (Districts); Assistant Deputy Comptrollers; District Counsel and Examining Personnel

RE: Enhanced Scrutiny of Proposals to Municipalities to fund projects at zero cost or to provide additional yields on existing investment portfolios through secondary market activities.

The OCC is aware of several proposals currently being promoted to assist municipalities to obtain grants or fund long-term projects at no or little cost to the municipality. Additional proposals have come to our attention which purport to be able to leverage current investment portfolios through secondary market activities to generate additional high yields at no risk to the original investment. These types of proposals, which are known to us from previous situations, have no financial validity and may place the municipality at extreme financial risk and reputation risk.

The scenarios currently being proposed may utilize deposit, trust, or safe keeping accounts at major financial institutions which are stated to be totally under the municipality's control at all times. Control of the account is not assured due to the following: ambiguous wording in the documentation; changes in the program immediately prior to or after start-up; or, other seemingly insignificant events that will provide the opportunity for access by persons other than the authorized municipal employees. Also, requests for municipal account custodians to enter into transactions that are not in accordance with established control practices are common. The request is usually based on some type of situation requiring immediate action to protect the investment or take advantage of a unique investment opportunity.

These programs appear to be "too good to be true." They are. Do not confuse them with the legitimate programs to assist municipalities and to provide legitimate investment performance improvements.

We strongly suggest that you exercise extreme caution to ensure that the proposals presented to you are legitimate by:

1. obtaining directly verifiable references from the promoters; and,
2. verifying the facts presented with reputable investment advisors and banks known by you.

Any information which you may have concerning this matter

should be brought to the attention of:

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