Stanford Investigation / Profits, opulence swayed investors -- Early red flags raised at 'slick' financial dealings

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Years before the Securities and Exchange Commission shut down Stanford Financial Group, David Le Vine questioned the legitimacy of the company's financial holdings.

After several brokers and other employees left the UBS Financial office he managed in late 2003 and early '04 to help Texas billionaire R. Allen Stanford lure Memphis investors, Le Vine says he and other colleagues began doing research.

They found article after article raising questions about the legitimacy of the firm's operations, highlighting Stanford's attempts to kill money-laundering legislation and pointing to the outsized influence he had created in the Caribbean nation of Antigua.

Then there were the stories he began to hear about how the company wooed investors and employees, with access to a private jet, with lavish excursions to Antigua, with East Memphis offices at the Crescent Center with so much marble and walnut and luxury it defied all he knew about turning a profit running a brokerage operation.

"The point is, they wanted people to think they were making so much money that you went to them to give your money," says Le Vine, who retired in 2006. "They didn't come to you."

The brokers who left, says Le Vine, took some business - and even a secretary he heard got a huge raise - but what Le Vine and UBS could not figure was why the former colleagues seemed so happy and, frankly, anything but overworked. Le Vine said UBS retained about 80 percent of those brokers' clientele, and the remaining 20 percent, he said, did not seem large enough to provide lucrative business, at least not applying normal fees and commissions.

What few in the industry knew was that Stanford's companies, shut down by the SEC on Feb. 17 with allegations of a massive fraud possibly reaching $8 billion, employed some highly unorthodox techniques to persuade brokers to put customers into high-yield, uninsured certificates of deposit parked in a bank in Antigua.

According to SEC documents, brokers were promised as much as 2 percent commissions on those CDs, with another 1 percent going to Stanford. Industry standard for CDs, according to financial professionals, is usually a fraction of that - for a $100,000 CD, one-tenth of 1 percent is common.

So, while most brokers might hope to earn $100 for selling a $100,000 CD, Stanford's brokers could pull $2,000 commissions. That adds up fast.

That also meant that the already-remarkable rates of return promised on the CDs - often 2 or 3 percent above standard market rates - came despite very high expenses.

One local broker who was recruited by Stanford but ultimately turned them down echoes Le Vine's suspicions about Stanford. This well-established broker - who has been licensed for decades but is not being identified because it would put him legal peril - said the opulence of the Crescent Center office was the first "warning light."

The numbers - for salary, for bonuses, for commissions - sounded another alarm.

According to Le Vine, some at UBS wanted to alert clients and even send out copies of newspaper articles, but the company's compliance office said it would violate industry rules against spreading hearsay.

With the SEC alleging Allen Stanford and Memphis-based executives James Davis (chief executive officer) and Laura Pendergest-Holt (chief investment officer) with engineering a Ponzi scheme, investors contacted by The Commercial Appeal are past the point of denying they were duped, but some assert they did investigate the company diligently.

Stanford and its brokers had a simple strategy: Worried about us? Then hop aboard the private jet to meet the bank president in Antigua.

The newspaper agreed to provide anonymity to a group of investors in exchange for detailed accounts of their situations, and, as they fret about their life savings, they say they go over and over those trips to the Caribbean.

Stanford would provide the nicest of private jets and accommodations at an island a ferry ride away from Antigua. Other investors would include CPAs, presidents, CEOs and CFOs of multimillion-dollar companies.

One investor, who said the scandal will cause him and his wife to sell their house and land in Germantown, described how they "kicked the tires and looked under the hood" for a good three hours with the bank president. They met with investment officers and legal counsel, too.

"I said, 'We're from Memphis and we've all read the book and seen the movie, "The Firm," and this is a question in our minds,'" said the investor, referring to the John Grisham book set in Memphis that centered around a law firm's connection to money-laundering operations in the Caribbean.

But the bank president said they never saw cash in the bank, and laundering money first of all requires cash. He talked about the stringent Basel II international accounting standards the bank followed. The investors had dinner with the bank president later, and heard stories of other wealthy and connected investors just as diligent in their interrogations.

Another investor described being impressed with CFO James Davis, after meeting him for lunch, because he was open and had detailed answers for every question. The investor's broker was leaving Merrill Lynch, and he finally determined he was comfortable allowing the broker to entrust his entire investment portfolio with Stanford.

The certificates of deposit the SEC now contends were the center of a Ponzi scheme became vehicles for investors to generate retirement income. Two investors spoke of each placing $2.5 million into the CDs and being pleased when the statement arrived every month showing consistent high single-digit returns.

The trouble for these investors now is that the court-appointed receiver in charge of all Stanford assets, Texas attorney Ralph Janvey, has frozen all accounts, and will only unfreeze a small percentage of them - those with less than $250,000 in assets - on Monday.

With the rise of Internet banking, many Stanford investors followed a routine of moving money each month from the Stanford account into a local banking account. Others only utilized Stanford-issued checks and credit cards to pay living expenses.

For some investors, this means no access to any of their money, even if it's held in stocks or municipal bonds. One investor has cashed in savings bonds. Another is taking out a home equity loan. Some are facing the unwelcome prospect of selling their homes and downsizing and unloading vacation properties - at the bottom of the market.

Investors say they have gone through a gamut of emotions - anger and resentment, denial and despair. They talk about a Feb. 12 letter from Allen Stanford himself laying out all the ways the company was sound and legal. Some were on a conference call with their broker the very moment when the SEC walked into Stanford's Crescent Center offices.

Some thought the government was overreaching at first, then thought it would be simple fraud but are now coming to see the company the way Le Vine, the retired investment professional, viewed Stanford all along.

"They drape themselves in religion and respectability, piety and opulence and what else could you want?" Le Vine said. "They showed everybody they were upstanding, God-fearing people - who just liked to steal your money.

"What they did was slick. It was a good script. They had their act down pat, in terms of making it believable."

Le Vine recalls an old joke told in the industry, this one about a man who goes into the woods and encounters an old, scary-looking woman. The woman says she is a witch and that she can make all the man's dreams come true, if only he will sleep with her. So he does, and then asks when those dreams will come true.

Le Vine delivers the punch line that may not seem so funny to Stanford investors: "Aren't you a little too old to believe in witches?"

Stanford's troubles

According to the receiver's Web site:

Unaudited financial statements show that as of December 31, 2008, Stanford had amassed tens of millions of dollars in unpaid bills, and to date the receivership accounting team has been able to identify only a limited amount of available cash on hand. Evidence is also mounting that the assets of the receivership estate will be only a fraction of the amount needed to satisfy the anticipated claims against the estate.

All the employment separations were effective Friday .

With a few exceptions, employees provided with the separation of service notice will be paid this Friday for the period from Feb. 16

through March 6. Employees will not receive any severance compensation or bonus.

Source: stanfordfinancialreceivership.com/documents/ Statement_re_Employees_030609.pdf

The Commercial Appeal wants to hear from Stanford investors, employees or anyone else with knowledge of the Memphis operations.

Contact reporter Zack McMillin at 529-2564 or zmcmillin@commercialappeal.com.

- Caption: PhotoMike Brown/The Commercial Appeal files R. Allen Stanford (right), presenting Justin Leonard the Stanford St. Jude Championship winner's trophy in June 2008, has seen his financial empire shaken by the investigation.

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