

FILED IN THE DISTRICT COURT
OKLAHOMA COUNTY, OKLA.

SEP 19 2003

PATRICIA PRESLEY, COURT CLERK
by Deputy

IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA

Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
Administrator,)

Plaintiff,)

v.)

Sunset Financial Group, Inc., an Oklahoma)
corporation; Vision Services, Inc., an Oklahoma)
corporation; Amsterdam Fidelity Business Trust,)
a Nevada limited liability partnership; EASE)
Corporation, an Oklahoma corporation; Gold Star)
Properties, Inc., an unincorporated association;)
Rebates International, Inc., a Nevada corporation;)
Betty Solomon Brokerage, Inc., an Oklahoma)
corporation; Emzie Huletty, an individual;)
Grover H. Phillips, an individual; Nicholas Krug,)
an individual; Charles E. Elliott, an individual;)
Terry Mahon, an individual; Denver Large,)
an individual; Betty G. Solomon, an individual; and)
Donald J. Wood, an individual,)

Defendants.)

CJ - 2003 - 7899

Case No.

PETITION FOR PERMANENT INJUNCTION

AND OTHER EQUITABLE RELIEF

COMES NOW the Plaintiff, Oklahoma Department of Securities ex rel. Irving L. Faught
("Department"), and for its claims against the above-named Defendants alleges and states:

OVERVIEW

1. This case involves violations of the Oklahoma Securities Act (the "Act"), Okla.
Stat. tit. 71, §§ 1-413, 501, 701-703 (2001 and Supp. 2002), by Sunset Financial Group, Inc.,
Vision Services, Inc., Amsterdam Fidelity Business Trust, EASE Corporation, Gold Star

Properties, Inc., Rebates International, Inc., Betty Solomon Brokerage, Inc., Emzie Huletty, Grover H. Phillips, Nicholas Krug, Charles E. Elliott, Terry Mahon, Denver Large, Betty G. Solomon and Donald J. Wood (collectively, "Defendants"). Specifically, the Department alleges Defendants offered and sold unregistered securities in violation of Section 301 of the Act, failed to register as broker-dealers or agents and/or employed unregistered agents in violation of Section 201 of the Act, perpetrated fraud in connection with the offer, sale or purchase of securities in violation of Section 101 of the Act, and unlawfully distributed sales literature in violation of Section 402 of the Act.

2. Schemes involving fictitious instruments termed "prime bank instruments" have proliferated in the past ten years. These prime bank schemes are characterized by:

- a. representations that the instruments involve "the world's 100 prime banks" or "the top 50 European or international banks";
- b. representations that the instruments are governed by the "International Chamber of Commerce";
- c. promises of unrealistic returns to investors;
- d. representations of little or no risk;
- e. representations of one or more guarantees; and
- f. an overly complex and nonsensical structure.

The 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, and United States Securities and Exchange Commission have all issued alerts to warn financial institutions and the investing public of these illegal schemes. See attached

Exhibits A and B. As alleged below, the securities offered and sold by the Defendants share characteristics of the bogus instruments that are the subject of the warnings attached.

JURISDICTION

3. The Administrator of the Department brings this action pursuant to Section 406.1 of the Act and is the proper party to bring this action against the Defendants.

4. Pursuant to Sections 2 and 413 of the Act, Defendants, in connection with their activities and the offer, sale, and purchase of securities, are subject to the provisions of the Act. By virtue of their transaction of business by contract and otherwise and commission of other acts in this state, Defendants are subject to the jurisdiction of this Court and to service of summons within or outside of this state.

5. Defendants have engaged and are engaging in acts and practices in violation of the Act. Unless enjoined, they will continue to engage in the acts and practices set forth herein and acts and practices of similar purport and object.

DEFENDANTS

6. Sunset Financial Group, Inc. ("Sunset") is an Oklahoma corporation with its principal place of business in Oklahoma City, Oklahoma. At all times material hereto, Sunset issued, offered and/or sold securities in and/or from Oklahoma.

7. Vision Services, Inc. ("Vision Services") is an Oklahoma corporation with its principal place of business in Oklahoma City, Oklahoma. Vision Services was suspended by the Oklahoma Secretary of State on June 21, 2001, but was reinstated on March 13, 2002. At all times material hereto, Vision Services issued, offered and/or sold securities in and/or from Oklahoma.

8. Amsterdam Fidelity Business Trust ("Amsterdam") is a Nevada limited liability partnership with its principal place of business in Stillwater, Oklahoma. At all times material hereto, Amsterdam issued, offered and/or sold securities in and/or from Oklahoma.

9. Gold Star Properties, Inc. ("Gold Star") is an unincorporated association with its principal place of business in Henderson, Arkansas. At all times material hereto, Gold Star offered and sold securities in and/or from Oklahoma.

10. EASE Corporation ("EASE") is an Oklahoma corporation with its principal place of business in Oklahoma City, Oklahoma. At all times material hereto, EASE offered and sold securities in and/or from Oklahoma.

11. Rebates International, Inc. ("Rebates") is a Nevada corporation with its principal place of business in Hollister, Missouri. At all times material hereto, Rebates offered and sold securities in and/or from Oklahoma.

12. Betty Solomon Brokerage, Inc. ("Solomon Brokerage") is an Oklahoma corporation with its principal place of business in Oklahoma City, Oklahoma. At all times material hereto, Solomon Brokerage issued, offered and/or sold securities in and/or from Oklahoma.

13. Emzie Huletty ("Huletty") is an individual who, at all times material hereto, was a resident of Oklahoma doing the acts complained of in his own name and/or in the name of Sunset, Vision Services and EASE. At all times material hereto, Sunset, Vision Services and EASE acted through and under the control of Huletty.

14. Grover H. Phillips ("Phillips") is an individual who, at all times material hereto, was a resident of Oklahoma doing the acts complained of in his own name and/or in the name of

Amsterdam. At all times material hereto, Amsterdam acted through and under the control of Phillips.

15. Nicholas Krug ("Krug") is an individual who, at all times material hereto, was a resident of Arkansas doing the acts complained of in his own name and/or in the name of Gold Star. At all times material hereto, Gold Star acted through and under the control of Krug.

16. Charles E. Elliott ("Elliott") is an individual who, at all times material hereto, was a resident of Arkansas doing the acts complained of in his own name and/or in the name of Gold Star. At all times material hereto, Gold Star acted through and under the control of Elliott.

17. Terry H. Mahon ("Mahon") is an individual who, at all times material hereto, was a resident of Missouri doing the acts complained of in his own name and/or in the name of Rebates. At all times material hereto, Rebates acted through and under the control of Mahon.

18. Denver Large ("Large") is an individual who, at all times material hereto, was a resident of Missouri doing the acts complained of in his own name and/or in the name of Rebates. At all times material hereto, Rebates acted through and under the control of Large.

19. Betty G. Solomon ("Solomon") is an individual who, at all times material hereto, was a resident of Oklahoma doing the acts complained of in her own name and/or in the name of Solomon Brokerage. At all times material hereto, Solomon Brokerage acted through and under the control of Solomon.

20. Donald J. Wood ("Wood") is an individual who, at all times material hereto, was a resident of Oklahoma doing the acts complained of in his own name and/or in the name of EASE. At all times material hereto, EASE acted through and under the control of Wood.

NATURE OF THE CASE

21. Beginning in or around January, 2001, Defendants offered and sold interests in a fraudulent scheme characterized as an international or domestic high-yield investment program ("Investment Program") in and/or from the state of Oklahoma to investors ("Investors"). Defendants worked in association with one another. Each Defendant played a separate role for which they each received a separate fee.

22. Defendants offered the interests in the Investment Program in connection with their residential and commercial loan services. Investors were required to pay at least seventeen percent (17%) of the appraised or market value of the real estate or business to be financed. Defendants represented that the fees would be held in trust by Defendant Amsterdam and invested in the Investment Program. It was further represented by Defendants that the Investment Program would return to the Investors one hundred percent (100%) of the principal value of the loan at the end of five (5) years. This promise of future payment was evidenced by a "Cash-Back" Rebate Coupon Certificate issued by Defendant Rebates.

23. Defendants represented to Investors that their money would be invested in or through "G7 Qualified Investment Banks" and the "top 100 banks in the world." Defendants promised high, unrealistic returns.

24. Defendants represented that the investment was guaranteed by Defendants Rebates and Amsterdam, that there was no risk of loss and that certain Defendants were bonded and/or insured.

25. Defendants' representations were made through the use of oral communications and written sales materials.

26. Investors had no control over or responsibility for their funds once the funds were provided to the Defendants.

27. From at least January, 2001, Defendants received substantial sums of money from the Investors, including residents of Oklahoma County, Oklahoma, for the purchase of the interests in the Investment Program.

FIRST CAUSE OF ACTION

Violation of Section 301 of the Act: Failure to Register Securities

28. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 27 above.

29. The Investment Program interests are securities as defined by Section 2 of the Act.

30. The securities offered and sold by Defendants are not and have not been registered under the Act as required by Section 301 of the Act. See Affidavit attached as Exhibit C. The securities have not been offered or sold pursuant to an exemption from registration pursuant to Section 401 of the Act. See Affidavit attached as Exhibit C.

31. By reason of the foregoing, Defendants violated, are violating, and unless enjoined, will continue to violate, Section 301 of the Act.

SECOND CAUSE OF ACTION

Violation of Section 201 of the Act: Failure to Register as Broker-Dealer and Agents and Employing Unregistered Agents

32. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.

33. Defendants are not registered under the Act as broker-dealers, broker-dealer agents, or issuer agents under Section 201 of the Act. See Affidavits attached as Exhibits D and E.

34. Defendants Sunset, Vision Services, Amsterdam and Solomon Brokerage are issuers as defined in Section 2 of the Act. Defendants Sunset, Vision Services, Amsterdam and Solomon Brokerage employed agents who were not registered under the Act to offer or sell securities.

35. Defendants Huletty, Phillips, Krug, Elliott, Mahon, Large, Solomon and Wood, by virtue of their efforts and activities in this state in effecting transactions in securities for the account of others or for their own account, are issuer agents, as defined in Section 2 of the Act. Defendants Huletty, Phillips, Krug, Elliott, Mahon, Large, Solomon and Wood transacted business in this state as issuer agents without benefit of registration under the Act.

36. By reason of the foregoing, the Defendants have violated, are violating, and unless enjoined, will continue to violate, Section 201 of the Act.

THIRD CAUSE OF ACTION

Violation of Section 101(2) of the Act: Untrue Statements of Material Fact and Omissions of Material Fact in Connection with Offer, Sale or Purchase of Securities

37. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

38. From at least January, 2001, and continuing to the present, Defendants, in connection with the offer, sale or purchase of interests in the Investment Program, directly and indirectly, made untrue statements of material fact and omitted to state material facts necessary

in order to make the statements made, in light of the circumstances under which they were made, not misleading. The untrue statements include, but are not limited to, the following:

- a. that there was no risk of losing the investment;
 - b. that the Investment Program is not a security;
 - c. that the rebate coupon is a "gift" when the purchase of an interest in the Investment Program is required to receive the coupon;
 - d. that Investor funds would be forwarded to the "G7 Qualified Investment Banks";
- and
- e. that one or more mortgage companies had endorsed the use of the Investment Program for their customers.

The omissions include, but are not limited to, the following:

- a. that on April 9, 2001, Oklahoma Department of Consumer Credit revoked the mortgage broker license of Truth Financial Services, Inc., a company for which Defendant Huletty was an officer and the representative, for violations of Oklahoma law including fraudulent loan documentation;
- b. that on October 20, 2000, Truth Financial Services, Inc. and its founder and chief executive officer, Defendant Huletty, were ordered by the Arkansas Securities Commissioner, State of Arkansas Securities Department, to cease and desist from further actions in the state of Arkansas in connection with the business of mortgage loans and loan brokering until such time as they are properly registered or exempted from registration;
- c. that on March 9, 2001, Defendant Large was convicted, in the Circuit Court of Pearl River County, State of Mississippi, of seventy-eight (78) counts of sales of

unregistered securities, securities fraud by misrepresentation, and violation of the Mississippi RICO Act; was ordered to pay restitution to his victims in the sum of \$562,000.00; and was sentenced to a suspended term of seventy-eight (78) years in prison, subject to certain terms and conditions;

d. that as a condition of his suspension, Defendant Large is prohibited from engaging in the sale of securities, real property, time shares or other interests in real property;

e. that the Investment Program interests are securities;

f. that the Investment Program interests are not registered as securities under the Act nor are they exempt from registration;

g. specific information about Defendants' uses of Investor funds;

h. an explanation of how Investor returns are earned and calculated; and

i. that Investors might not get the profit promised by Defendants.

39. By reason of the foregoing, Defendants, directly and indirectly, violated, are violating, and unless enjoined, will continue to violate Section 101(2) of the Act.

FOURTH CAUSE OF ACTION

Violation of Section 101(3) of the Act: Engaging in any Act, Practice, or Course of Business which Operates or would Operate as a Fraud or Deceit upon any Person

40. The Department realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

41. Defendants, in connection with the offer, sale or purchase of securities, and through the use of the untrue statements of material fact and the omissions of material facts

described in paragraphs 21-24 and 38 above, engaged in an act, practice, or course of business that operated as a fraud or deceit upon Investors.

42. By reason of the foregoing, Defendants, directly and indirectly, violated, are violating, and unless enjoined, will continue to violate Section 101(3) of the Act.

FIFTH CAUSE OF ACTION

Violation of Section 402 of the Act: Unlawfully Distributing Sales Literature

43. The Department realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

44. Defendants, in connection with the offer and/or sale of securities, distributed sales literature to Investors without filing such sales literature with the Department.

45. By reason of the foregoing, Defendants, directly and indirectly, violated, are violating, and unless enjoined, will continue to violate Section 402 of the Act.

PRAYER FOR RELIEF

Defendants have engaged in acts and practices in violation of the Act and have, as a result of these activities, received a substantial amount of money from numerous Investors. Unless enjoined, the Defendants will continue to engage in the acts and practices set forth herein and acts and practices of similar purport and object. A danger exists that the money received by Defendants from Investors or money or securities held by Defendants on behalf of Investors will be lost, removed or transferred. A temporary restraining order to issue instanter and temporary and permanent injunctions and other equitable relief to issue against Defendants are necessary to preserve these funds, securities and the records relating thereto and to prevent further violations of the Act.

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 406.1 of the Act, the Department prays that this Court grant the following relief:

I.

1. A temporary restraining order instanter, a temporary injunction during the pendency of this action, and permanently thereafter, an order restraining and enjoining the Defendants, their subsidiaries, officers, directors, agents, servants, employees, assigns, attorneys, and those persons acting on their behalf, under their direction and control, and/or in active concert or participation with them, who receive actual notice of the restraining order or temporary injunction, by personal service, facsimile or otherwise, and each of them from:

- a. transacting business in this state as a broker-dealer, agent, investment adviser and/or investment adviser representative;
- b. offering and selling any security in this state;
- c. making untrue statements of material fact in connection with the offer, sale, and/or purchase of securities in and/or from this state;
- d. omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, in connection with the offer, sale, and/or purchase of securities in and/or from this state;
- e. engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person in connection with the offer, sale, and/or purchase of securities in and/or from this state; and

- f. distributing any sales literature in any manner in this state in connection with the offer, sale, and/or purchase of securities in and/or from this state.

II.

An order prohibiting Defendants, their agents, servants, employees, assigns and all those persons, directly or indirectly, acting on their behalf, under their direction and control, and/or in active concert or participation with them who receive actual notice of the order, by personal service, facsimile or otherwise, and each of them from tampering with, mutilating, altering, erasing, concealing, removing, destroying or otherwise disposing of any and all books, records, documents, files, correspondence, computer disks, tapes or other data recordings of any type, pertaining to or referring to Defendants or any financial transactions by Defendants or to which Defendants were parties;

III.

An order freezing the assets of Defendants;

IV.

An order appointing a receiver *pendente lite* for Defendants Sunset, Vision Services, Amsterdam, EASE, Solomon Brokerage, Huletty, Phillips, Solomon and Wood, empowering said receiver to marshall and take possession of the books, records, funds and assets of such Defendants; to undertake whatever manner of legal or equitable action is required to preserve or maintain the assets of such Defendants; and to operate or liquidate the assets of Defendants Sunset, Vision Services, Amsterdam, EASE, Solomon Brokerage, Huletty, Phillips, Solomon and Wood for the benefit of the Investors of Defendants, as equity may require;

V.

An order requiring Defendants to provide a full and accurate accounting of all monies received by them as a result of the scheme and a full and accurate accounting of the disposition of those monies;

VI.

An order requiring Defendants to produce all books and records, both corporate and individual, as are necessary to obtain an accounting of the amount, source and disposition of funds received in connection with offers and sales of the securities described in this Petition, and the identity of any and all bank accounts to which any deposit(s) were made of funds obtained in connection with the sales of the securities described in this Petition.

VII.

An order requiring Defendants to rescind any and all transactions involving the sale of the securities described in this Petition and/or to make restitution to any and all Investors who purchased the securities described in this Petition or who transferred money to Defendants for the purpose of making securities investments on their behalf;

VIII.

An order requiring Defendants, their agents, servants, employees, assigns, and all persons, directly or indirectly, acting on their behalf, under their direction and control, and/or in active concert or participation with them, to disgorge all ill-gotten gains;

IX.

An order imposing a civil penalty against each Defendant in the amount of Fifty Thousand Dollars (\$50,000.00); and

X.

Such other equitable relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act.

Respectfully Submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
IRVING L. FAUGHT, ADMINISTRATOR

By: Patricia A. Labarthe

Patricia A. Labarthe, #10391

Oklahoma Department of Securities

120 North Robinson, Suite 860

Oklahoma City, Oklahoma 73102

Telephone (405) 280-7700

Fax (405) 280-7742

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

SS.

Irving L. Faught, of lawful age, being first duly sworn deposes and says that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing Petition and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information and belief.

(SEAL)



IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 18th day of September, 2003.



Notary Public

My Commission Expires: August 26, 2005
My Commission No.: 01013792
(SEAL)

AFFIDAVIT

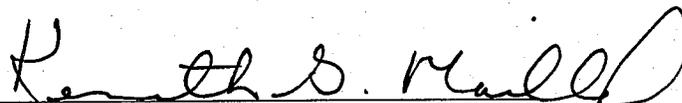
STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

I, Kenneth G. Maillard, Director of Registrations of the Oklahoma Department of Securities (Department), swear that I have conducted an examination of the registration files of the Department pertaining to current and past registrations for the offer or sale of securities in Oklahoma and that nowhere therein was found a record of an application for the registration of securities pursuant to Section 301 of the Oklahoma Securities Act (Act), OKLA. STAT. tit. 71, §1-413, 501, 701-703 (2001 & Supp. 2002), for Sunset Financial Group, Inc., Vision Services, Inc., Amsterdam Fidelity Business Trust, EASE Corporation, Gold Star Properties, Inc., Rebates International, Inc. and Betty Solomon Brokerage, Inc.(Companies).

I further swear that nowhere within the registration files for the Department was found a record of a registration of securities for any of the Companies pursuant to Section 301 of the Act.

I further swear that nowhere within the exemption files for the Department was found a record of a notice of intent to claim exemption from Sections 301 and 402 of the Act for any of the Companies pursuant to any subsection of Section 401 of the Act.

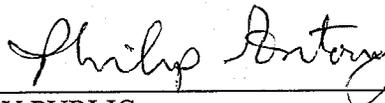
(SEAL)



Kenneth G. Maillard
DIRECTOR OF REGISTRATIONS
OKLAHOMA DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 17th day of September, 2003.

(NOTARIAL SEAL)



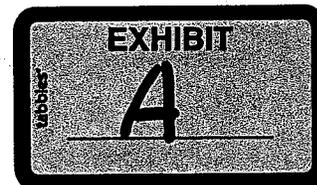
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My Commission Expires:

My Commission Expires Sep. 18, 2004.

My Commission Expires Sep. 18, 2004.



STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, Oklahoma 73102
Telephone (405) 280-7700

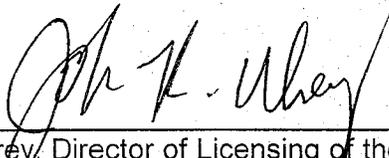
AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS.

I, John K. Ulrey, Director of Licensing of the Oklahoma Department of Securities, swear that I have caused to be examined the registration files of the Oklahoma Department of Securities pertaining to current and past registered broker-dealers, broker-dealer agents, investment advisers, investment adviser representatives and issuer agents and that nowhere therein was found a record of the registration pursuant to Section 201 of the Oklahoma Securities Act (Act) for the following:

- Sunset Financial Group, Inc.
- Vision Services, Inc.
- Amsterdam Fidelity Business Trust
- EASE Corporation
- Gold Star Properties, Inc.
- Rebates International, Inc.
- Betty Solomon Brokerage, Inc.

(SEAL)



John K. Ulrey, Director of Licensing of the
OKLAHOMA DEPARTMENT OF SECURITIES

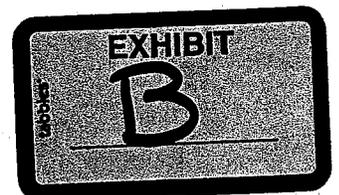
Subscribed and sworn to before me this 17th day of SEPT., 2003.

(NOTARIAL SEAL)



Brenda London Smith
Notary Public

My Commission Expires: **August 26, 2005**
My Commission No.: **01013792**



STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, Oklahoma 73102
Telephone (405) 280-7700

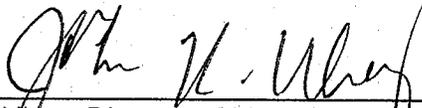
AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS.

I, John K. Ulrey, Director of Licensing of the Oklahoma Department of Securities, swear that I have caused to be examined the registration files of the Oklahoma Department of Securities pertaining to current and past registered broker-dealers, broker-dealer agents, investment advisers, investment adviser representatives and issuer agents and that nowhere therein was found a record of the registration pursuant to Section 201 of the Oklahoma Securities Act (Act) for the following:

- Emzie Huletty
- Grover H. Phillips
- Nicholas Krug
- Charles E. Elliott, Sr.
- Terry Mahon
- Denver Large
- Betty G. Solomon
- Donald J. Wood

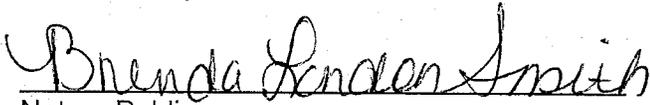
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John K. Ulrey, Director of Licensing of the
OKLAHOMA DEPARTMENT OF SECURITIES

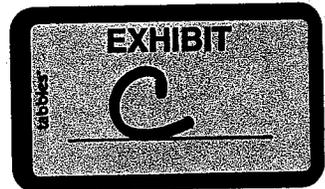
Subscribed and sworn to before me this 16 day of Sept., 2003.

(NOTARIAL SEAL)



Notary Public

My Commission Expires: August 26, 2005
01013792



Investor Alerts

So-Called "Prime" Bank and Similar Financial Instruments, Information for Investors Bulletin No. II-101 (10/93)

The Securities and Exchange Commission ("Commission") is alerting investors and regulated entities to the recent escalation in the number of possibly fraudulent schemes involving the issuance, trading or use of so-called "prime" bank, "prime" European bank or "prime" world bank financial instruments.¹ These instruments typically take the form of notes, debentures, letters of credit, and guarantees. Also typical in the offer of these instruments is the promise or guarantee of unrealistic rates of return; e.g., a 150 percent annualized rate of "profits." Common targets of these schemes include both institutional and individual investors, who may also be induced to participate in possible "Ponzi" schemes involving the pooling of investors' funds to purchase "prime" bank financial instruments.

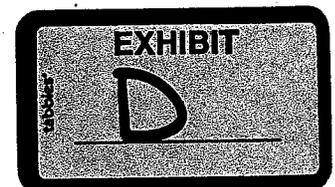
On October 21, 1993, the federal financial institution supervisory agencies² issued an Interagency Advisory to their regulated financial institutions. The Interagency Advisory also warned of the use of schemes involving "prime" bank financial instruments and noted that:

The agencies had 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."

These institutions "had no knowledge about the unauthorized use of their names or the issuance or anything akin to 'Prime Bank'-type financial instruments."

The staffs of the federal financial institution supervisory agencies are unaware of the legitimate use of any financial instrument called a "Prime Bank" note, guarantee, letter of credit, debenture, or similar type of financial instrument.

-
1. These schemes do not involve the offer or sale of financial instruments issued by any financial institution having the word "prime" in its name; rather, that word (or a synonym, as in the phrase "top fifty world banks") is used to refer, generically, to financial institutions of purportedly high repute and financial soundness.
 2. These agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.



Financial institutions should be attentive to the attempted use of traditional types of financial instruments that are referred to in an unconventional manner, "such as a letter of credit referencing forms allegedly produced or approved by the International Chamber of Commerce."

As to this latter point, the Interagency Advisory referred to examples of "bogus schemes involving the supposed issuance of an 'ICC 3034' or an 'ICC 3039' letter of credit by a domestic or foreign bank."

The Interagency Advisory also noted that many of the illegal or dubious schemes that have come to the attention of regulatory agencies "appear to involve overly complex loan funding mechanisms." In the eyes of an unsophisticated investor, this complexity may make a questionable investment appear worthwhile. The Commission warns investors and those who may advise them, particularly broker-dealers and investment advisors, of this possible hallmark of fraud and reminds them of a basic rule for avoiding securities fraud, "If it looks too good to be true, it probably is!"

* * * *

The Commission requests that those with information regarding the offer or sale of "prime" bank or similar financial instruments provide that information to one of the Commission offices listed below. When information is sent to one of the Commission's regional or district offices, it should be sent to the attention of the Assistant Regional Administrator (Enforcement). (List of Commission Offices omitted)



**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551**

**DIVISION OF BANKING
SUPERVISION AND REGULATION**

**SR 93-61 (FIS)
October 25, 1993**

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: Interagency Advisory Concerning "Prime Bank" Financial Instruments

Recently, Board staff noted an increase in the number of questionable domestic and international financial schemes involving so-called "Prime Bank" financial instruments, such as Prime Bank Notes, Prime Bank Guarantees, and Prime Bank Letters of Credit. Working with the enforcement staffs of the other federal financial institutions supervisory agencies and with U.S. and international law enforcement agencies, we prepared, on behalf of all of the supervisory agencies, the attached Interagency Advisory concerning the use of these types of illegitimate financial instruments.

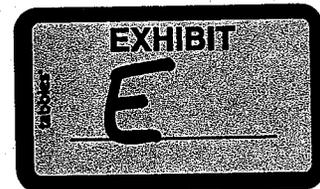
On October 21, 1993, the bank, thrift, and credit union regulatory agencies jointly issued the Interagency Advisory. Because this matter potentially affects many organizations, we would appreciate you distributing the Interagency Advisory to the domestic and foreign financial institutions supervised by the Federal Reserve in your District, as well as to the appropriate members of your Federal Reserve Bank's supervision and legal staffs.

It should be noted that the enforcement staffs of the supervisory agencies will, in the future, prepare and distribute similar Interagency Advisories concerning on-going questionable banking practices or illegal schemes whenever necessary to advise the banking community about such problems. These interagency alerts will be prepared and forwarded directly to the officers in charge of supervision at the Federal Reserve Banks for appropriate distribution to the banking organizations in their Districts and to their staffs.

In the event you have any questions concerning this matter, please contact Mr. Richard A. Small, Special Counsel, at (202) 452-5235, or me, at (202) 452-2620.

Herbert A. Biern
Deputy Associate Director

ATTACHMENT TRANSMITTED ELECTRONICALLY BELOW



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.

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 C Street, N.W.
Washington, D.C. 20552
(202) 906-6853
(202) 898-0230 (fax)

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.

Footnotes

1. These 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. Return to

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2. There 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. [Return to text](#)

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