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Testimony by
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President
Federal Reserve Bank of Atlanta
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FEDERAL RESERVE BANK OF ATLANTA TESTIMONY

re:

BANK OF CREDIT AND COMMERCE INTERNATIONAL

AND THE NATIONAL BANK OF GEORGIA

INTRODUCTION

Mr. Chairman and members of the Committee, I am pleased to appear today to discuss with you the role of the Federal Reserve Bank of Atlanta in the supervision of the Florida offices of the Bank of Credit and Commerce International (BCCI), and in the supervision of the NBG Financial Corporation, the parent bank holding company of the National Bank of Georgia (NBG).

My remarks will first address BCCI. Since the previous witnesses have set forth the supervisory and regulatory framework within which the Federal Reserve System operates with respect to its supervision of international branches and agencies, I will therefore confine my remarks regarding BCCI to the Atlanta Reserve Bank's supervision and regulation of BCCI's offices in Miami, Boca Raton, and Tampa, Florida.
The BCCI-Miami agency opened on March 15, 1982; the Boca Raton agency opened on September 12, 1983; and the Tampa agency opened on June 29, 1984. Each of these offices was licensed by the Comptroller's Office of the Department of Banking and Finance of the State of Florida. These were not the initial entries by BCCI into the United States, as its first office was opened on September 1, 1981, in San Francisco. Other offices in Los Angeles (February 7, 1983) and New York (April 16, 1984) were also opened.

BCCI also had an administrative office in Miami which supervised Latin American and Caribbean activities, and provided back office support to the three Florida agencies. The administrative office was permitted under Florida law and was supervised by the Florida Department of Banking and Finance.

The Miami agency managed and coordinated the activities of the Tampa and Boca Raton offices, including regulatory reporting to the Federal Reserve. From the opening of the BCCI-Miami office, the Atlanta Reserve Bank carried out its supervisory responsibilities pursuant to the International Banking Act of 1978. As was the case with other Florida agencies under that Act, our responsibility as the residual supervisor of the State-licensed agencies was essentially to assure that the BCCI Florida offices received timely examinations from the licensing authority, the State of Florida.

During this time, our examiners participated in these examinations in a limited manner. Our participation normally consisted of a one or two day visitation of the agency, in which we
conducted a review of financial reports submitted to the Reserve Bank, and a review of compliance with federal banking laws, including the Bank Secrecy Act. These visitations coincided with the State's examinations and during the visitations, our examiners learned the State's preliminary findings. After conducting the compliance visit, Reserve Bank examiners wrote a memorandum detailing their findings and the State's preliminary results. Copies of the State's final report of examination and BCCI's responses were forwarded to the appropriate offices within the Federal Reserve System. Irregularities in compliance with the Bank Secrecy Act were detected at various times during our visitations and resulted in two criminal referrals, which are described below.

In 1983, the Treasury Department referred numerous institutions, including BCCI-Miami, to our attention after finding technical deficiencies in their reporting of transactions subject to the Financial Recordkeeping Act. The deficiencies concerned improper completion of forms designed to report individual cash transactions of $10,000 or more. We found additional technical compliance problems at BCCI-Miami in a visit in 1984, in which examiners noted the agency had failed to file currency transaction forms for three cash transactions over $10,000. The agency filed the forms during the examination. Both cases represented isolated technical problems, and did not raise suspicions of money laundering. In each instance, agency management took corrective action. In March 1985, while visiting during the State's examination, Reserve Bank examiners detected suspicious
transactions carried out by a customer of BCCI-Miami. After becoming aware of the transactions, the agency ceased doing business with the customer. To our knowledge, this customer has not been implicated in subsequent indictments of BCCI.

Following the receipt in August, 1985, of the State's March 1985, final Report of Examination of BCCI-Miami which noted continued asset problems, the Atlanta Reserve Bank conducted an independent examination of the Miami office in October, 1985. The examination revealed a significant deterioration in asset quality. However, no further evidence of suspicious transactions was noted at the time. As a result of the deterioration in asset quality, the Atlanta Reserve Bank requested BCCI begin quarterly reporting on its classified assets.

While participating in an April 1987 examination of BCCI-Miami, examiners discovered possible money laundering transactions that appeared to be structured to evade reporting requirements. The transactions were detected in a review of checks and money orders sent from BCCI-Panama to BCCI-Miami for payment.

The following circumstances prompted examiners' suspicions. BCCI-Miami frequently received such deposits from BCCI-Panama, consisting of 300 to 500 individual money orders totaling $300,000 and more. These money orders were all purchased from institutions in the New York City area and were issued in bearer form, then stamped payable to the order of one account number. No other endorsements ever appeared. The purchasers of the money order wrote in their name and address and the date purchased. The same
handwriting appeared for different names and different addresses. Some money orders bore sequential numbers but were given different purchase dates. These transactions appeared to be designed to facilitate a money laundering operation. A criminal referral concerning the activities discovered at the Miami agency was filed with the U. S. Attorney's office in Miami, and the Federal Bureau of Investigation in North Miami Beach on May 18, 1987. The staff of the Board of Governors copied the referral to the Internal Revenue Service, Washington, D.C. on June 5, 1987.

In October, 1988, the U.S. Attorney in Tampa issued indictments against BCCI and several employees for money laundering. In connection with the indictments, U.S. Customs agents searched the offices of BCCI in Florida over the weekend of October 8.

Reserve Bank examiners entered the Miami, Boca Raton, and Tampa agencies to monitor liquidity and review operations in the week following the search by law enforcement officials, and remained on-site for several weeks until the situation stabilized. Our efforts were part of a System review of all of BCCI's U.S. offices. During this period, activities resulting in the Atlanta Reserve Bank's second criminal referral were discovered. Federal Reserve examiners detected two separate series of suspicious transactions while on-site at BCCI-Boca Raton. Both cases were similar to the scheme detected in Miami in 1987. Our ability to investigate the suspected schemes was limited because many original records had been seized by law enforcement authorities in their
search. The second criminal referral was filed on November 7, 1988, with the U. S. Attorneys in Tampa and Miami, and the FBI. The staff of the Board of Governors sent a copy of the referral to the IRS, Washington, D.C. on November 14, 1988.

Copies of workpapers and documents supporting the two referrals were provided in response to a subpoena from the U.S. Attorney in Miami on February 27, 1989. Reserve Bank personnel have continued to cooperate with law enforcement authorities, including the U.S. Attorney, the Federal Bureau of Investigation, and the Internal Revenue Service, on matters relating to BCCI. On June 12, 1989, the Reserve Bank received a second subpoena, from the U.S. Attorney in Tampa, Florida, requesting all records relating to BCCI, the National Bank of Georgia (NBG), and related companies. All information was supplied as requested.

As a result of the System's review of BCCI's U.S. operations in 1988, a cease and desist order against BCCI was issued by the Board of Governors on June 12, 1989, requiring BCCI to strengthen U.S. operations and enforcing compliance with the Bank Secrecy Act. The Reserve Bank conducted an independent examination of BCCI-Miami as of September 30, 1989, to assess the condition of the agency and determine compliance with the Board's order. This examination was coordinated with other Reserve Banks' examinations of BCCI's U.S. offices. Examiners noted significant asset quality problems, and weaknesses in credit administration, internal controls, and the audit function.
The need for further examination of BCCI's Florida offices was eliminated when the Tampa and Boca Raton offices closed in September, 1989, and the Miami agency closed in January, 1991.

**RESERVE BANK'S SUPERVISION OF NBG**

**Application History of NBG**

Ghaith Pharaon, a Saudi Arabian national, acquired a 60% interest in NBG in 1978, and continued to acquire stock in NBG until by December 30, 1980, he owned 98.6% of total outstanding shares. Because NBG was a national bank, the Comptroller of the Currency (OCC) was its primary regulator. According to information supplied by the Office of the Comptroller of the Currency (OCC), Pharaon purchased the shares in NBG from Bert Lance and other numerous individuals, through direct negotiations and through tender offers. A change of ownership notice was filed with the OCC on August 7, 1978. The Reserve Bank was not a party to this notice because NBG was not yet owned by a holding company.

Pharaon incorporated GRP, Inc. in Georgia in March, 1981, for the purpose of forming a bank holding company. The Reserve Bank learned of Pharaon's intent and requested information regarding his financial strength and business activities. No negative information was received.

Pharaon's banking interests first came under the jurisdiction of the Atlanta Reserve Bank in July, 1981, when GRP, Inc., filed an application to become a bank holding company by acquiring an existing bank holding company and its bank subsidiary -- not NBG -- located in Cobb County, Georgia. The Reserve Bank approved the
application in October, 1981, based on the following factors: 1) the positive impact of Pharaon's ownership on his existing banking interests, as evidenced by the OCC's recognition of the improved condition of NBG, and Pharaon's injection of $3 million to improve its capital; and 2) Pharaon's ability to repay debt associated with the acquisition, and provide continued support to the holding company. Pharaon's financial statement showed a net worth in excess of $100 million, not including the bulk of his assets which were in Saudi Arabia. Pursuant to the application, GRP, Inc. acquired the Cobb County bank, and thus, became subject to the Reserve Bank's supervision.

The Federal Reserve Bank of Atlanta's supervision and regulation responsibility for NBG's parent bank holding company began in November, 1981, when Pharaon filed applications to place his stock in NBG under his existing bank holding company, GRP, Inc., and to acquire two more banks, in Clayton County, Georgia, and in Gwinnett County, Georgia. In evaluating the applications, the Atlanta Reserve Bank again considered Reports of Examination, issued by NBG's primary regulator, the OCC, which indicated that NBG had improved under Pharaon's ownership, and again reviewed Pharaon's ability to financially support the bank, by requesting a summary of the sources of the most recent year's income, and a list of annual obligations. Pharaon again provided evidence of a non-Saudi net worth in excess of $100 million, and committed to make an additional capital injection of $10 million into NBG. He also offered not to take dividends from the bank to allow it to improve
its capital position. The continued improvement in NBG's condition, and Pharaon's ability and willingness to contribute financial support were positive factors leading to the Atlanta Reserve Bank's approval recommendation. The Board of Governors of the Federal Reserve System approved the application in March, 1982, and the parent holding company came under the Federal Reserve's supervision. The OCC remained the primary regulator of NBG, while the Reserve Bank directly supervised GRP, Inc., NBG's parent company.

The Reserve Bank approved the reorganization of NBG's parent holding company structure in two subsequent applications, processed in 1982 and 1983. In connection with the reorganization, GRP, Inc. changed its name to NBG Financial Corporation. The applications involved the creation of two new bank holding companies, and the merger of Pharaon's Atlanta banking interests into a single bank. Pharaon remained the sole shareholder of NBG and its parent bank holding companies. The stated purpose of the proposed reorganization was for estate and tax planning, and to take advantage of a Georgia law related to bank mergers.

Prior to approving these applications, the Reserve Bank again considered the condition of banks controlled by Pharaon, reviewing reports of examination from the OCC and the State of Georgia, and considered his ability to provide financial support for NBG. According to the application, the transactions would not require any parties (Pharaon, the bank, or the holding company) to incur additional debt. The projected cash needs of NBG Financial
Corporation, the "new" bank holding company, would be met through Pharaon's personal resources. After considering these factors, the application was approved. The transactions proposed in the applications were consummated in 1983.

In response to the Committee's question, let me reiterate that, during this period, there was no information or evidence to indicate that Pharaon was not in fact the owner of NBG or that his source of funds for acquisitions differed from that he reported. Pharaon had been the owner of record of NBG for several years prior to the formation of the holding company, and he had established a satisfactory record during his control of the bank, as evidenced by the improvement in condition of the bank, his ability to make capital injections, and his ability to defer dividends.

In January, 1985, the Atlanta Reserve Bank recommended that the Board of Governors approve an application filed by NBG to convert an existing wholly owned service subsidiary to an Agreement Corporation, called NBG International Bank. (An Agreement Corporation is permitted to conduct business of an international nature only, similar to an Edge Act corporation. NBG could not own a Edge Act corporation because Pharaon was not a U.S. citizen.) The approval recommendation was based on an evaluation of the condition of NBG, using Reports of Examination provided by the OCC, and other financial data supplied by the applicant. The Board of Governors approved the application on February 25, 1985.
The Atlanta Reserve Bank received an application from NBG International Bank in 1987 to increase the authorized capital stock in the Agreement Corporation. The application was submitted to correct an inadvertent violation of Regulation K. The corporation increased its capital stock without prior approval from the Reserve Bank. The Board of Governors approved the application on April 26, 1989, after NBG International Bank took steps to ensure further violations would not occur. On October 23, 1987, the Atlanta Reserve Bank approved an application by NBG International to change its name to First American International Bank.

Inspection/Examination Supervision of NBG and NBG International Bank

The activities and financial condition of NBG's parent bank holding company were routinely monitored by the Federal Reserve Bank of Atlanta, through inspections of NBG Financial Corporation, and examinations of NBG International Bank, according to the supervision programs adopted by the Board of Governors of the Federal Reserve System. These supervision programs were developed pursuant to the authority granted in the Bank Holding Company Act of 1956, and its various amendments, and Section 25(a) of the Federal Reserve Act.

The bank holding company supervision program focuses on assessing the condition of the bank holding company and determining its ability to serve as a source of strength for its subsidiaries. In 1978, annual inspections were mandated for companies with assets in excess of $300 million. In accordance with this program, the
Atlanta Reserve Bank inspected NBG's holding company once each year from 1983 through 1986. Each inspection considered the ability of the bank holding company to support its bank subsidiaries, and found the contribution of the sole indirect shareholder, Ghaith Pharaon, to be positive. Never in the course of our supervision of the parent holding company, including reviews of the Examination Reports of the primary regulator, the OCC, did the Reserve Bank discover any information indicating BCCI's ownership of NBG Financial Corporation.

NBG International Bank (now First American International Bank) has been examined annually by the Atlanta Reserve Bank since its inception.

NBG Financial Corporation was acquired by First American Bankshares, Inc., Washington, D.C., on August 19, 1987. The acquisition application was processed by the Federal Reserve Bank of Richmond, the responsible Reserve Bank for First American Bankshares, Inc.

CONTACTS WITH OTHER REGULATORS

In keeping with the regulatory structure proscribed in the Bank Holding Act of 1956, and the International Banking Act of 1978, the Reserve Bank has maintained regular contact with the State of Florida, and with the Comptroller of the Currency in its routine supervision of BCCI and NBG's parent holding company, relying, as directed by statute, on the reports of these other supervisory agencies whenever possible. When concerns regarding the condition of BCCI's Florida agencies arose, the Reserve Bank
departed from its usual residual supervision and conducted an independent examination to directly assess BCCI's condition. The Reserve Bank continues to participate in coordinated investigations of BCCI and related parties within the Federal Reserve System and is also continuing to cooperate with law enforcement agencies in their ongoing investigations of BCCI and NBG.

**SUMMARY**

In summary, the Federal Reserve Bank of Atlanta supervised BCCI's and NBG's activities in the Sixth District as directed by the International Banking Act of 1978 and the Bank Holding Company Act of 1956. We made criminal referrals of suspicious activity and increased our on-site presence as warranted. With respect to NBG and First American, we evaluated on several occasions the owner of record, Pharaon, and had every reason to believe that he was a person of substance financially, and that he was acting on his own behalf. Throughout this period, we have cooperated with law enforcement agencies in every way possible, and even at the present time, are contributing an examiner to the U.S. Attorney's ongoing efforts in Atlanta.