



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS
75265-5906

October 29, 1993

Notice 93-113

TO: The Chief Executive Officer of each
member bank and others concerned in
the Eleventh Federal Reserve District

SUBJECT

Interagency Advisory Concerning
Prime Bank Financial Instruments

DETAILS

Board of Governors staff recently 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, the Board has prepared an interagency advisory concerning the use of these types of illegitimate financial instruments.

ATTACHMENT

Attached is a copy of the interagency advisory, dated October 21, 1993.

MORE INFORMATION

For more information, please contact Richard Small, Special Counsel at the Board at (202) 452-5235, or Earl Anderson at the Federal Reserve Bank of Dallas at (214) 922-6152. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

**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.

¹These 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.

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

²There 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.

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.