

**FEDERAL RESERVE BANK  
OF NEW YORK**

AT-10666  
November 10, 1993

**FRAUDULENT FINANCIAL TRANSACTIONS**

**Interagency Notice Regarding the Use of  
Certain Questionable Financial Instruments**

*To All Depository Institutions in the Second Federal  
Reserve District, and Others Concerned:*

The following statement has been issued by the Board of Governors of the Federal Reserve System :

Federal regulators have issued a warning to financial institutions of the increased use of questionable instruments that are used in complex and possibly illegal schemes aimed at defrauding borrowers and investors as well as banks.

The questionable instruments are known by such names as Prime Bank Notes, Prime Bank Guarantees, and Prime Bank Letters of Credit.

Staffs of the bank and thrift regulatory agencies are unaware of the legitimate use of any financial instrument known by these names and cautioned financial institutions to be aware of the potential dangers associated with any transaction using this type of instrument.

Printed on the following pages is the text of the Interagency Advisory. Please contact the appropriate Federal agency at the address listed in the Advisory in the event you become aware of a transaction involving any of the types of financial instruments set forth in that notice. Questions regarding this matter may be directed, at this Bank, to Barbara A. Klein, Manager, Domestic Banking Department (Tel. No. 212-720-8324), or to Timothy D. Mahoney, Staff Director, Regulatory Enforcement Staff (Tel. No. 212-720-2085).

**WILLIAM J. McDONOUGH,**  
*President.*

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**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**

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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".<sup>1</sup>

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.

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<sup>1</sup>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.

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.<sup>2</sup> 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)

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<sup>2</sup>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.

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.