

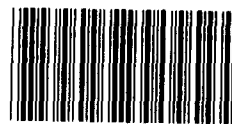
GAO

Report to the Honorable  
Robert H. Michel, Republican Leader,  
House of Representatives

September 1992

# FOREIGN BANK

## Initial Assessment of Certain BCCI Activities in the U. S.



147824

**RESTRICTED--Not to be released outside the  
General Accounting Office unless specifically  
approved by the Office of Congressional  
Relations.**

555604

RELEASED

---

---

**General Government Division**

B-247882

September 30, 1992

The Honorable Robert H. Michel  
Republican Leader  
House of Representatives

Dear Mr. Michel:

This report responds to your request that we (1) review the operations of the Bank of Credit and Commerce International's (BCCI) representative office in Washington, D.C., including any relationships with U.S. government officials, and (2) assess the federal banking agencies' efforts to determine if BCCI, through its secret ownership of U.S. commercial banks, abused these banks for its own benefit.

You also expressed interest in an analysis of BCCI's records and information from other sources showing BCCI's method of acquiring secret ownership of U.S. banks and its involvement with institutions involved in money laundering. However, as we discussed during meetings with your office, ongoing litigation and our inability to gain access to certain types of information, most significantly U.S. intelligence data and information at non-U.S. locations, prevented us from doing work in these areas. We were denied access to and lacked formal authority to review information maintained by foreign governments, including the United Kingdom, concerning BCCI's operations. We were similarly unsuccessful in gaining access to representatives of the principal shareholder of BCCI, the ruler of Abu Dhabi, because of Department of State concerns that this might interfere with ongoing investigations by the Department of Justice. Finally, we were unable to gain access to workpapers prepared by Price Waterhouse, United Kingdom, BCCI's external auditor, that might have provided information about BCCI's operations.

Information on BCCI's involvement with U.S. commercial banks, its closure in July 1991, and the plea agreement between its court-appointed fiduciaries and the U.S. government and others is contained in appendix I. Appendix I also contains an organization chart of U.S. banks controlled by BCCI. Appendix II discusses the operations of the BCCI representative office in Washington, D.C. Appendixes III and IV discuss the U.S. federal banking agencies' efforts, through special examinations, to identify evidence of an adverse BCCI influence on the operations of the commercial banks it secretly controlled.

---

## Background

BCCI Holdings, S.A., was chartered in Luxembourg in 1974 as the holding company for the Bank of Credit and Commerce International, S.A., a bank chartered in Luxembourg in 1972, and the Bank of Credit and Commerce International (Overseas) Limited, a bank chartered in 1972 in the Cayman Islands. We refer to these three BCCI-related entities collectively as BCCI in this report. BCCI managed and directed its operations from London until 1990, when the top officials directing operations moved to Abu Dhabi.

BCCI was set up as a bank that would compete with banks of the West but serve primarily third world countries. By July 1991, when regulators began seizing control of BCCI-related banks and operations, it had been conducting banking operations in over 69 countries. BCCI's losses worldwide could reach billions of dollars, making it one of the largest bank failures ever. More than a million depositors, many of them in third world countries where deposit insurance is not available, may suffer heavy losses.

BCCI did not submit applications to the U.S. government seeking approval to acquire control of U.S. depository institutions. BCCI nevertheless obtained secret ownership of more than 25 percent of the outstanding shares of Credit and Commerce American Holdings, the parent of First American Bankshares, Inc., a U.S. bank holding company that operated seven commercial banks located in six states and the District of Columbia. One of these banks included the National Bank of Georgia, which Credit and Commerce American Holdings had purchased in 1987, although BCCI had allegedly gained control of the National Bank of Georgia before 1987. It also obtained secret ownership of Independence Bank, Encino, California, and acquired ownership or control of more than 5 percent of the voting shares of Centrust Savings Bank, Miami, Florida. BCCI established an approved presence in U.S. markets through state-licensed agencies in California, Florida, and New York. At one time, it also operated representative offices in California, Illinois, New York, Texas, and Washington, D.C., which were required to be registered with the Department of the Treasury.

In accordance with the International Banking Act of 1978, as amended (IBA), U.S. agencies of foreign banks are authorized to (1) make loans, (2) provide banking-related services, and (3) develop business opportunities for their home office or other related entities.<sup>1</sup> Representative offices are limited to developing business opportunities and in general performing a public relations function for foreign banks. Neither an agency nor a

---

<sup>1</sup>International Banking Act, § 1, 12 U.S.C. 3101.

---

representative office is authorized to accept deposits from U.S. citizens or residents.

Although national banking supervisors could supervise most BCCI operations within their geographic areas, none had the responsibility or authority to examine BCCI's worldwide activities. The corporate structure established by BCCI thus had the effect of minimizing close supervision of the full range of its operations and apparently enabled it to avoid detection of its activities and true condition for almost 2 decades. For example, BCCI could remove transactions from the accounts of one subsidiary at selected times and place them on the accounts of BCCI units in other countries, thereby shielding these activities from supervisory review and external audit.

In 1988, supervisory authorities, concerned about the lack of effective consolidated supervision of BCCI, set up an informal body known as the College of Supervisors, which served as a mechanism for member nations to share information on BCCI activities.<sup>2</sup> The representatives held discussions because of concerns over the financial soundness of BCCI.<sup>3</sup> Of particular concern were the extent of BCCI's exposure to some of its customers and the fact that many of these loans were not being serviced. The College was not empowered to provide consolidated supervision of BCCI operations.

Just as BCCI was not supervised on a consolidated basis, neither was it regularly audited by a single external auditor until 1987. Beginning with its 1987 financial audit, BCCI appointed Price Waterhouse's United Kingdom accounting firm as its single external auditor. During its 1988 financial audit, the external auditor raised concerns about BCCI's exposure to shareholders of Credit and Commerce American Holdings—a Netherlands Antilles holding company that controlled the U.S. bank holding company First American Bankshares. BCCI's loans to certain shareholders of Credit and Commerce American Holdings were secured by their shares in this bank holding company.

---

<sup>2</sup>The College of Supervisors originally comprised representatives from England, Luxembourg, Spain, and Switzerland. Representatives from Hong Kong and the Cayman Islands joined in 1989, and representatives from the United Arab Emirates and France joined in 1990 and 1991, respectively. Representatives from the United States did not participate in the College of Supervisors until July 1991, when Federal Reserve officials were invited to attend, as observers, a meeting being conducted by the College.

<sup>3</sup>In addition, in October 1988, BCCI and several BCCI employees were indicted under U.S. law for money-laundering activities done through BCCI's agencies located in Florida and New York.

As a result of its 1989 audit, in March 1990, BCCI's external auditor informed BCCI's directors of its concerns about a number of irregularities identified in account records. The external auditor found evidence that BCCI had shifted funds within its organization to achieve the appearance of a better financial condition than actually existed and had made large loans to individuals that appeared to be unserviceable. Of continuing concern to the auditor was BCCI's growing exposure to shareholders of Credit and Commerce American Holdings. BCCI's directors had informed the external auditor as early as March 1989 that the exposure would be reduced. However, the 1989 audit found that the exposure had increased and that BCCI loans to certain shareholders were nonperforming.<sup>4</sup> Additionally, the external auditor discovered evidence of substantial wrongdoing and significant fraudulent transactions. Agreements were reached with BCCI's majority shareholder (the government of Abu Dhabi) to recapitalize the bank and absorb certain losses. Upon the close of this agreement and after consultation with the Bank of England, the auditor signed off on the 1989 financial statements as "true and fair."

The external auditor uncovered additional evidence of BCCI's deceptive practices throughout 1990, which it reported in an October 1990 report to BCCI's Audit Committee. It also gave this report to the Bank of England and the College of Supervisors. In November 1990, the auditor was given access to BCCI files in Abu Dhabi that had previously not been available to it. The files and a top BCCI executive in Abu Dhabi provided more indications that BCCI reportedly had conducted numerous unusual transactions and maintained a separate set of secret records that had not been made available to the external auditor. The files also provided evidence that BCCI had nominee agreements with shareholders of Credit and Commerce American Holdings that allowed BCCI to acquire, in the name of the shareholders, control of more than 25 percent of the bank holding company. In March 1991, the Bank of England commissioned the external auditor to investigate BCCI under section 41 of the United Kingdom's 1987 Banking Act.<sup>5</sup>

---

<sup>4</sup>Nonperforming loans are loans that are not performing according to the original terms of the borrowers's loan agreement. Generally, loans 90 days or more past due are considered to be nonperforming.

<sup>5</sup>Various sections of this act grant the Bank of England broad powers to investigate an institution and to communicate with an institution's auditors and provide for investigations or audits of an institution that result in reports to the regulator and institution or the institution only. An investigation done under section 41 of the law is considered broader and more stringent than other types of investigations because it is commissioned by the regulators for the regulators.

In December 1990, at the urging of the Federal Reserve, the external auditor granted a senior U.S. Federal Reserve official access to a copy of the auditor's October 1990 report detailing substantial loans made by BCCI to the shareholders of Credit and Commerce American Holdings. As it became increasingly clear to U.S. officials that an unauthorized relationship between BCCI and the First American banks existed, a special investigation of the First American organization and operations was initiated. The Federal Reserve Board took the lead because it has responsibility for approving and supervising U.S. bank holding companies. Its investigation included a special examination of First American Bankshares, Inc., the U.S. bank holding company owned by Credit and Commerce American Holdings and its subsidiary banks in Florida, Georgia, Maryland, New York, Virginia, and Washington, D.C. A few months later, in connection with the special examination, the Office of the Comptroller of the Currency (OCC) examined the BCCI-controlled national banks—the First American Banks of Florida, Georgia, and Washington, D.C. The Federal Deposit Insurance Corporation (FDIC) examined the state-chartered First American banks in Virginia, Maryland, and New York. During its investigation the Federal Reserve found evidence indicating BCCI secretly owned 25 percent or more of the outstanding shares of Independence Bank in California, a federally insured state-chartered bank that was not a member of the Federal Reserve System. FDIC, the federal regulator of Independence Bank, then began to examine Independence Bank and its ties to BCCI.

Starting in July 1991, BCCI and many of its overseas entities were closed and placed in liquidation pursuant to the laws of Luxembourg, the Cayman Islands, and elsewhere. In addition, in July 1991, the Federal Reserve publicly announced charges against BCCI alleging that, contrary to the Bank Holding Company Act of 1956, as amended,<sup>6</sup> BCCI used nominee agreements<sup>7</sup> to gain control of two U.S. banking organizations: First

<sup>6</sup>Under § 3(a) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1842(a)), it is unlawful for any company to take action causing it to become a bank holding company except with prior Federal Reserve Board approval. Under the act, a bank holding company includes any company that directly or indirectly owns, controls, or has power to vote 25 percent or more of any class of voting securities of any bank or of any other company that is or becomes a bank holding company (12 U.S.C. 1841(a)).

<sup>7</sup>In its charges, the Federal Reserve stated it had evidence of extensive and secret loan arrangements between BCCI and customers of BCCI that were designed to allow BCCI to acquire, in the name of these customers, the stock of the First American banking organization and the Independence Bank. These arrangements in many cases involved sham loans to BCCI customers with side agreements that the customers would not be required to repay or service the loans and that BCCI could sell the shares and retain the profits. In return for their services, the customers received fees and indemnities.

American Bankshares, Inc.,<sup>8</sup> and its subsidiaries and Independence Bank.<sup>9</sup> First American subsidiary banks and Independence Bank accepted deposits from U.S. citizens. The Federal Reserve further charged that BCCI used nominee arrangements because it believed it could not meet the requirements of the Bank Holding Company Act and International Banking Act of 1978 to acquire U.S. banks. According to the charges, BCCI believed that it could not obtain Federal Reserve approval to acquire a bank under the Bank Holding Company Act because its consolidated organization worldwide was not subject to supervision by its home country regulator<sup>10</sup> and it was not able to meet the regulatory disclosure, financial, and managerial standards and other requirements of the Bank Holding Company Act.

Although the Federal Reserve Board charged in July 1991 that BCCI secretly controlled the First American banks and Independence Bank, they were not put under the control of the court-appointed fiduciaries with the other BCCI entities because the Federal Reserve had already directed BCCI to disinvest its ownership interest in these U.S. institutions. In a December 1991 plea agreement with the United States, approved by the United States District Court for the District of Columbia in January 1992, BCCI court-appointed fiduciaries publicly acknowledged that BCCI management and operators had fraudulently and secretly acquired direct or indirect ownership and control over the shares of First American Bankshares and Independence Bank.

As part of the agreement, the fiduciaries agreed to make funds realized from the liquidation of BCCI's U.S. assets available to these U.S. BCCI-controlled banks and other entities. Sufficient funds were not readily

---

<sup>8</sup>Credit and Commerce American Holdings had established First American Corporation, Washington, D.C., as an intermediate holding company over First American Bankshares. First American Corporation did not conduct significant banking operations and functioned as a shell corporation. The Federal Reserve focused its examination activities on First American Bankshares.

<sup>9</sup>In the Matter of BCCI Holdings (Luxembourg) S.A. Luxembourg, Bank of Credit and Commerce International S.A., Luxembourg, Bank of Credit and Commerce International (Overseas) Limited, George Town, Cayman Islands, International Credit and Investment Company (Overseas) Limited, George Town, Cayman Islands, Agha Hasan Abedi, Swaleh Naqvi, Hasan Mahmood Kazmi, Kamal Adham, Faisal Saud Al-Fulaj, A.R. Khalil, Sayed Jawhary, Ghaith R. Pharaon and Khuro Elley (issued July 29, 1991).

In the Matter of Ghaith R. Pharaon, Agha Hasan Abedi, Swaleh Naqvi and Kemal Shoaib, Institution-Affiliated Parties of BCCI Holdings (Luxembourg) S.A., and the Bank of Credit and Commerce International S.A., Luxembourg (issued July 12, 1991).

<sup>10</sup>BCCI Holdings was chartered in Luxembourg. Under Luxembourg law, holding companies are not subject to supervision. Although nominally headquartered in Luxembourg, BCCI operated its global business out of its London office. BCCI relocated its headquarters from London to Abu Dhabi in October 1990.



---

available fully to meet the financial needs of Independence Bank, and, in January 1992, that bank was declared insolvent and closed.

In July 1992, after we completed our audit, the Federal Reserve commenced a formal civil enforcement proceeding against Clark M. Clifford and Robert A. Altman in their capacities as directors of Credit and Commerce American Holdings, N.V. and First American Bankshares, Inc., and as counsel for BCCI.<sup>11</sup> On the same day, the New York District Attorney announced the return of grand jury indictments against Clark M. Clifford and Robert A. Altman for criminal conduct related to their assisting BCCI in secretly acquiring control of First American.

The Federal Reserve based the enforcement proceeding on evidence obtained during its investigation designed to determine how BCCI gained control and how it may have attempted to gain influence over First American's operations.<sup>12</sup> While the Federal Reserve's special examination of First American primarily focused on records and data available from that organization, the Federal Reserve's investigation activities obtained and used information from the First American organization as well as sources located within and outside the United States.

The Federal Reserve asserts that Clifford and Altman violated the Bank Holding Company Act of 1956, as amended, by participating in BCCI's illegal acquisition of control of Credit and Commerce American Holdings. The Federal Reserve Board additionally asserts that Altman violated the Bank Holding Company Act by participating in BCCI's acquisition and retention of control of National Bank of Georgia, that he made false statements to the Federal Reserve Board in violation of 18 U.S.C. 1001, and that he enabled a party to acquire control of Credit and Commerce American Holdings in violation of the Control Act (12 U.S.C. 1817(j)). The Federal Reserve action also includes assertions that Clifford and Altman

- violated the Federal Reserve Board's order under the Bank Holding Company Act that approved Credit and Commerce American Holdings' acquisition of the First American banks.

---

<sup>11</sup>In the Matter of Clark M. Clifford, Robert A. Altman, Institution-Affiliated Parties of Credit and Commerce American Holdings, N.V., Netherlands Antilles, a registered bank holding company (issued July 29, 1992).

<sup>12</sup>Our work focused on the Federal Reserve's special examination activities which did not identify evidence that BCCI adversely influenced First American's operations for the benefit of BCCI. The Federal Reserve's July 1992 commencement of civil enforcement proceedings is based in part on evidence obtained during investigation activities, done concurrently but separately from its special examination, and which we did not review to avoid interfering with potential enforcement activities.

- engaged in unsafe and unsound banking practices and breaches of fiduciary duty in connection with loans to Credit and Commerce American Holdings by permitting it to pay off a preferential-rate loan prior to maturity, replace it with a higher rate loan, and agree to a retroactive increase in the interest rate on the higher rate loan, all to the benefit of BCCI and the detriment of Credit and Commerce American Holdings.
- breached their fiduciary duties to the boards of directors of Credit and Commerce American Holdings and First American by failing to disclose to these boards personal financial arrangements with BCCI regarding their own shares of Credit and Commerce American Holdings, including preferential loans from BCCI to purchase the shares, and agreements under which BCCI would arrange for sale of the shares at a price acceptable to them and to BCCI.
- breached their fiduciary duties to the board of directors of Credit and Commerce American Holdings by buying shares of Credit and Commerce American Holdings at book value without disclosing to the managing directors all information material to the transaction.
- breached their fiduciary duty to the board of directors and shareholders of Credit and Commerce American Holdings and to the board of directors of First American by failing to disclose all information material to the decision to buy Credit and Commerce American Holdings and First American's decision to acquire the National Bank of Georgia.

The New York indictments charge Clifford and Altman with accepting benefits from BCCI in their roles as counsel to and directors of First American. The indictment claims that these benefits included legal fees, nonrecourse loans, and favorable deals related to the purchase of Credit and Commerce American Holdings stock by Clifford and Altman. For example, the indictment claims that Clifford realized a pre-tax profit of about \$6.5 million related to a partial sell-off of Credit and Commerce American Holdings stock that he held, and that Clifford entered into an agreement with a BCCI official under which BCCI agreed to purchase the remaining shares upon Clifford's death. The indictment estimated the value of this agreement at about \$5.1 million. The indictment also claims that Altman realized a pre-tax profit of about \$3.2 million related to a partial sell-off of Credit and Commerce American Holdings stock that he held, and that Altman and a BCCI official signed an agreement under which BCCI agreed to purchase the remaining shares upon Altman's death. The indictment estimated the value of this agreement at about \$2.5 million.

The Federal Reserve had scheduled a hearing in September 1992 in part to determine whether an order should be issued that would prohibit the

---

future participation of Clifford and Altman in the affairs of any insured U.S. depository institution or related holding company.

Additionally, the New York District Attorney and the Department of Justice have taken actions to schedule separate court hearing dates related to their respective charges against Clifford and Altman. However, as the result of a September 1992 ruling by the United States District Court for the District of Columbia, Clifford and Altman are expected to first be subject to state court proceedings based on the charges being brought in the New York indictment.

---

## Results in Brief

BCCI operated a representative office in Washington, D.C., for almost 6 years, from August 1984 to June 1990. The office's activities centered on generating business for BCCI entities from embassies, international financial institutions, and U.S. government agencies. Our analysis of available financial records showed that about 60 percent of its total expenditures (\$11.1 million out of \$18.8 million) were incurred between 1986 and 1988. In our detailed review of information related to the \$11.1 million in expenditures, we found that it was a normal business practice of BCCI to send gift baskets of nominal value during holidays and throughout the year to employees, certain officials of First American Bank, and other individuals. However, we found no evidence of direct payments to U.S. government officials and only nominal contributions, totaling \$300 and \$160 respectively, to two political committees. These contributions involved five transactions: one check payable to, and endorsed by, a political committee for \$100, and four checks, totaling \$360, payable to employees for political contributions they had purportedly made. After notifying the congressional offices associated with these committees of these payments, officials advised us that they planned to take immediate action to return the contributions. We have referred these matters to the Federal Election Commission.

During May 1992 congressional hearings, a Federal Reserve official testified that the special examinations of First American banking transactions had not found evidence that BCCI adversely influenced bank operations to the benefit of BCCI or BCCI-related entities. The Federal Reserve had identified certain transactions between BCCI and First American that caused some losses to First American. Most of the losses were related to instruments, such as bankers' acceptances and letters of

---

credit, that came due after BCCI was closed on July 5, 1991, and the BCCI subsidiary has not repaid First American.<sup>13</sup>

We assessed the scope and methodology of the Federal Reserve's special examination of the banks and found that it had been adequately designed to identify ties between First American banks and BCCI that did not represent normal banking transactions. All major areas of bank operations were covered, and in many cases all relevant transactions—such as all large, charged-off loans<sup>14</sup>—were examined. Financial institutions the size of First American, with billions of dollars in assets, conduct hundreds of millions of transactions annually. As in the case of regulator examinations, due to the volume of data, the Federal Reserve used judgmental samples. Because the banks have been subject to regular examinations, the sampling approach seemed reasonable. The Federal Reserve cannot be certain that problems do not exist in transactions that were not included in the samples it reviewed. Additionally, because BCCI's organizational structure and operations are complex, and because of BCCI's past use of secret arrangements to conduct certain transactions, we believe that the Federal Reserve cannot be certain that all of BCCI's direct and indirect ties to First American have been identified. Federal Reserve officials told us that they plan to continue to investigate transactions, however remote, that may have had an adverse effect on the bank.

Because Independence Bank was in weak condition, FDIC primarily focused on examining its safety, soundness, and financial condition rather than its ties to BCCI and related entities. FDIC's special examination of Independence Bank began later than the Federal Reserve's special examination of First American, was more limited in scope and methodology, and was not fully documented. FDIC concluded, based on that work, that BCCI's secret ownership of Independence did not adversely affect the operations of the bank to the benefit of BCCI or related entities, other than possibly in one instance. FDIC's special examination appeared sufficiently broad to identify major areas in which ties between

---

<sup>13</sup>The Federal Reserve is still conducting a separate investigation of aspects of First American policies and decisionmaking processes, and their potential effect on the types of transactions entered into by First American. As a part of this investigation, the Federal Reserve has selected for further examination certain banking transactions between BCCI and First American. To avoid interfering with potential law enforcement activities, our report does not discuss in detail these investigatory activities. As discussed earlier in the report, these investigation activities in part resulted in the commencement of Federal Reserve civil enforcement proceedings against Clark M. Clifford and Robert A. Altman in July 1992.

<sup>14</sup>Charged-off loans are loans whose value has been written down to zero because no further collection is expected.

Independence and BCCI-related entities might have existed.<sup>16</sup> However, we could not independently assess the methodologies used to review bank records nor verify the comprehensiveness of the work accomplished because of the lack of documentation.

The Federal Reserve, FDIC, and a number of other U.S. entities are continuing investigations of BCCI's activities and its ties and relationships to other entities. Evidence of adverse BCCI impact on bank operations to its own benefit may yet be discovered.

## Objectives, Scope, and Methodology

In your July 25, 1991, letter, you asked us to investigate BCCI's U.S. activities and operations, with a primary focus on the following issues:

- the activities of BCCI-related individuals and organizations, including the use of nominee shareholders;
- the ability of BCCI to circumvent the U.S. regulatory process and gain control of U.S. financial institutions;
- the relationships between BCCI-related individuals or organizations and current or former U.S. public officials; and
- the involvement of BCCI with institutions engaged in money-laundering activities.

As we discussed with your office, we were not able to fully address your original questions, primarily because we were denied access to and lacked formal authority to review information maintained by foreign governments, including the United Kingdom, concerning BCCI's operations. We sought information that would have enabled us to assess the extent to which BCCI's organizational structure impeded efforts by banking regulators to understand and supervise BCCI's global operations. The Bank of England denied us access to documents and would not discuss BCCI's activities with us because of its ongoing inquiry into BCCI's operations. We were similarly unsuccessful in gaining access to representatives of the principal shareholder of BCCI, the ruler of Abu Dhabi, because of Department of State concerns that this access might interfere with ongoing investigations by the Department of Justice.

We were also unable to attain access to Central Intelligence Agency data on BCCI operations. We sought to review these documents to determine whether they contained information that should have alerted U.S.

<sup>16</sup>FDIC did not formally announce an investigation of Independence Bank. FDIC's investigation of ties between Independence Bank and BCCI were a special effort done during examinations of Independence.

---

regulators to irregularities in BCCI operations or in the change of control applications for First American Bankshares or other U.S. institutions. Finally, we were unable to gain access to review workpapers prepared by Price Waterhouse, United Kingdom, BCCI's external auditor, that might have provided information about BCCI operations or better explained how it disguised their full extent.

In discussions with your office, we agreed to focus our work in two areas, as follows:

- BCCI's activities conducted through its representative office in Washington, D.C., and any relationships between this office and current or former U.S. public officials, and
- federal banking agencies' efforts to determine if BCCI through its secret ownership of two U.S. banking organizations, First American<sup>16</sup> and Independence Bank, abused these banks for its own benefit.

Our scope and methodology for the two areas we focused on are described in the following section.

---

Washington, D.C.,  
Representative Office

To develop a financial and operational picture of BCCI's Washington, D.C., representative office, we did the following:

- We identified what business activities were undertaken by the office and what opportunities were referred to other BCCI entities or other financial institutions. We reviewed correspondence and other files of the Washington office and interviewed former employees of this office.
- We determined how the Washington office was financed and the purposes for which it used these funds. Financial records of the office, including intra-BCCI reports, books of original entry, invoices, checks, and bank statements were examined. For the 3-year period January 1, 1986, through December 31, 1988, we analyzed all financial transactions and prepared several financial statements. Nearly 60 percent of the Washington office's expenditures were made during this period.

We confined our scope to transactions and activities recorded by the representative office. This office did not maintain financial records on any activities that may have been conducted in Washington, D.C., by other BCCI organizational elements or BCCI personnel not assigned to the Washington

---

<sup>16</sup>In this report we use the term First American to refer to First American Bankshares and its subsidiary banks.

---

representative office. We did our work at the office previously occupied by the BCCI New York agency, where records of the Washington, D.C., representative office were stored under the control of the New York State banking department.

---

**U.S. Banking Agencies'  
Special Examinations of  
First American and  
Independence**

We reviewed the special examinations of First American and Independence Bank conducted by the Federal Reserve and FDIC, respectively, to assess their efforts to review bank records to identify any evidence of activities that adversely influenced bank operations and benefited BCCI or BCCI-related entities. We reviewed the information used by the Federal Reserve to conduct its special examination, reviewed its methodologies for analyzing bank records, and verified selected analyses. We also interviewed Federal Reserve officials responsible for the special examination. We did not, however, assess that part of the Federal Reserve's investigation intended to uncover evidence of how BCCI gained control and how it may have influenced the operations of First American Bankshares, or how BCCI gained control and how it may have influenced the operations of the National Bank of Georgia either before or after it was acquired by Credit and Commerce American Holdings in 1987. A detailed discussion of our methodology is contained in appendix III.

Likewise, we interviewed FDIC officials who examined the operations of Independence Bank. We reviewed the available evidence FDIC used to prepare special examination reports. We also reviewed the regulatory history of Independence Bank to determine whether it contained indications of BCCI influence or abuse. A detailed discussion of our methodology is contained in appendix IV.

We did our field work at the Federal Reserve in Washington, D.C.; the Federal Reserve Banks of Atlanta and Richmond; OCC headquarters in Washington, D.C.; FDIC headquarters in Washington, D.C.; and the FDIC San Francisco Regional Office.

We did our work between August 1991 and March 1992 in accordance with generally accepted government auditing standards.

---

## Principal Findings

---

### Activities of BCCI's Washington Representative Office

BCCI operated a representative office in Washington, D.C., from August 1984 through June 1990, when BCCI closed it, a period of almost 6 years. Existing files and records of this office show that its activities centered on attracting deposits from embassies, international financial institutions, and foreign nationals posted in Washington for overseas BCCI offices and First American Bank, N.A., located in Washington, D.C.; obtaining banking business associated with export programs of U.S. and international financial agencies; and providing financial and other accommodations to high-net-worth depositors and other important foreign dignitaries visiting the United States. Marketing reports and other documents maintained by this office referred to the close relationship between these two institutions.

During its existence, BCCI's Washington office expenditures totaled about \$18.8 million, with about \$11.1 million of that spent in the 1986-88 period. While substantial funds were expended over the Washington office's 6-year life, our review identified relatively few instances in which that office generated any significant banking business for BCCI. Our detailed analysis of the office's operation during that 3-year period showed that just over half of these funds were obtained from regular, monthly home office remittances to cover the office's expenses, such as payroll costs. The balance represented transfers to fund specific expenditures made at the direction of other BCCI entities or to reimburse the Washington office for expenses already incurred on their behalf. For example, overseas BCCI entities reimbursed the Washington office for some of its payroll costs and the travel costs incurred on behalf of their customers. These other BCCI entities included BCCI's global operations in London; an agency licensed in the United States; and operations located in other areas such as the Cayman Islands, Panama, and Abu Dhabi.

In our detailed review of available information related to expenditure of the \$11.1 million, we found no evidence of direct payments to U.S. government officials and only nominal contributions to two political committees. After being notified of these payments, the congressional offices associated with these committees planned to take immediate action to return the contributions. Appendix II discusses the activities and finances of the Washington representative office in more detail.



---

## Special Examinations to Determine BCCI's Influence on the Operations of U.S. Banks

After seeing evidence in December 1990 that BCCI controlled First American Bankshares, the Federal Reserve assumed a leadership position among the federal banking agencies to determine the extent of BCCI's influence over the operations of U.S. banks.

The Federal Reserve is the U.S. supervisor of bank holding companies. Initially, the Federal Reserve examined the holding company—First American Bankshares. Shortly after, at the Federal Reserve's request, FDIC and OCC examined the subsidiary banks for which they are responsible. The Federal Reserve also assumed responsibility for further special examination of First American Bankshares and its seven subsidiary banks. It developed a list, using data obtained from public sources and U.S. government agencies, of approximately 200 entities associated with BCCI to use during its special examination and provided this list to examiners from the other federal banking agencies who were examining First American's subsidiary banks. In its special examination, the Federal Reserve reviewed a variety of different areas of First American's operations, including customer accounts, direct and indirect extensions of credit, wire transfers, charged-off loans, and other operations that might reveal inappropriate BCCI involvement. Examiners prepared summaries of the results of their work, which included the conclusions as well as the methodologies used. Their files contained material used in these analyses, for example, loan documents and account statements.

Because of their volume, the Federal Reserve often reviewed samples of certain types of transactions such as loans, wire transfers, overdrafts,<sup>17</sup> and off-balance-sheet activities.<sup>18</sup> The sampling was judgmental and based on sampling techniques generally used in bank examinations and enhanced for the Federal Reserve's special examination. Because of the hundreds of millions of annual transactions undertaken by the First American banks individually, no regulator could state with complete confidence that no abusive transactions took place.

The Federal Reserve used bank records and systems in its work but took precautions to minimize the risk of failing to detect BCCI influence because of fraudulent documentation. For example, the Federal Reserve reviewed actual documents in the files of credit extensions, cross-checked aggregate records against customer files, and reviewed prior-period bank statements.

---

<sup>17</sup>An overdraft is the amount by which a check exceeds the available balance in a checking account.

<sup>18</sup>Off-balance-sheet activities are large contingent liabilities, such as letters of credit, that are not recorded on banks' balance sheets but generate fee income for banks.

First American had an active business relationship with BCCI, primarily through one of its banking subsidiaries. This relationship included holding deposits in the bank and extending credit to BCCI related to international trade through instruments such as banker acceptances and letters of credit. The Federal Reserve reviewed this activity and determined that it constituted a normal banking relationship with no unusual credit exposure to BCCI.

Although the Federal Reserve's special examination into possible BCCI influence on the operations of First American is not finished, it is largely complete. To date, the special examination has not revealed any transactions indicating that BCCI abused First American to its own benefit or that of related entities. However, Federal Reserve investigation activities done separately from the special examination have resulted in the Federal Reserve commencing a civil enforcement proceeding against Clark M. Clifford and Robert A. Altman. As a part of this proceeding, the Federal Reserve asserts that Clifford and Altman engaged in unsafe and unsound banking practices by permitting Credit and Commerce American Holdings to enter into transactions to the benefit of BCCI and to the detriment of Credit and Commerce American Holdings, and that they permitted BCCI to be closely involved in the establishment and organization of the First American Bank of New York.

During the early stages of its special examination of First American Bankshares, the Federal Reserve found evidence that BCCI, acting through Ghaith Pharaon, controlled Independence Bank, Encino, California. The Federal Reserve provided this information to FDIC, which had the federal responsibility for supervising Independence Bank. FDIC examinations before 1991 had identified ties to BCCI and related entities.

In February 1991, FDIC developed a list of BCCI-related entities and individuals and reviewed Independence's computerized list of depositors, borrowers, and other customers to see if it contained any names that might indicate a linkage between Independence and BCCI. In March 1991, FDIC reviewed Independence's customer records using the Federal Reserve's list. These reviews confirmed previously known details of relationships with BCCI and related entities but disclosed little new information.

In August 1991, FDIC broadened its special examination to search for BCCI/Independence ties that might not have been captured on the computerized records in areas such as indirect extensions of credit,

---

investments, and management ties. It did find additional information related to transactions involving BCCI but did not find evidence that these transactions adversely affected Independence, other than possibly in one instance. In this transaction, Independence was exposed to a potential loss of \$2.4 million.

FDIC did not fully document the steps completed during its work; it documented only those transactions involving individuals associated with BCCI or BCCI-related entities. We therefore could not independently assess or verify the scope or special examination methods or the actual implementation of the work.

After Independence failed in January 1992, FDIC initiated post-closure activities, which will include a detailed review of its relationship with BCCI and BCCI-related entities, focusing on source documents at the bank.

---

## Conclusions

We did not find evidence that BCCI's Washington representative office made direct payments to U.S. government officials and identified only nominal contributions to two political committees. These results, however, do not mean that BCCI did not make any direct or indirect payments to U.S. officials or abuse U.S. banks. Because we did not gain access to the financial and other records of BCCI entities operating outside the United States, we cannot conclude that such payments or abusive actions were not carried out.

The federal banking agencies' special examinations did not find evidence that BCCI adversely influenced the operations of First American and Independence Bank for its own benefit or that of related entities except for one Independence Bank transaction. The Federal Reserve and FDIC did not, however, have full access to BCCI documents overseas during their examination activities. As a part of the January 1992 court-approved plea agreement with the United States and others, BCCI's court-appointed fiduciaries agreed to cooperate, to the fullest extent allowed under applicable U.S. and foreign law, with the federal banking agencies, other federal agencies, and state agencies in their investigations of BCCI operations. The plea agreement requires the fiduciaries to produce investigative information under their control including documents, tangible evidence, or other information concerning BCCI and BCCI-related activities, entities, and individuals.

---

In instances in which the court-appointed fiduciaries conclude that production of investigative information violates relevant and applicable foreign laws, the fiduciaries are to take reasonable steps to attempt to meet the foreign legal requisites necessary to permit compliance or overcome the foreign legal barriers inhibiting compliance. When we did our work, the banking agencies had not yet obtained access to the material in accordance with these provisions. It was uncertain whether this material would contain evidence showing that BCCI in fact made direct payments to U.S. government officials or used its secret ownership of the banks for its own benefit while abusing U.S. banks.

In July 1992, however, after we completed our work, the Federal Reserve commenced a formal civil enforcement proceeding against Clark M. Clifford and Robert A. Altman. The Federal Reserve asserts that these individuals engaged in unsafe and unsound banking practices by permitting Credit and Commerce American Holdings, the parent of First American, to enter into transactions to the benefit of BCCI and to the detriment of Credit and Commerce American Holdings, and that they permitted BCCI to be closely involved in the establishment and organization of the First American Bank of New York. The Federal Reserve based its enforcement proceeding on evidence obtained from First American records and sources located inside and outside the United States. We did not assess the extent to which the Federal Reserve based its proceeding on information obtained from the court-appointed fiduciaries.

---

## Agency Views

We discussed the contents of this report with officials from the Federal Reserve, FDIC, and OCC, who generally agreed with the information we provided. We have incorporated their views into this report as appropriate.

---

As we agreed, subsequent to the ongoing criminal and civil litigation relating to BCCI's activities, we will discuss with you additional work you may want us to pursue if more records and information become accessible to us.

As arranged with your office, we plan no further distribution of this report until 30 days after its issue date, unless you publicly announce its contents earlier. At that time, we will send copies to interested parties. Copies will also be made available to others upon request.

---

This report was prepared under the overall direction of Donald R. Wurtz, Director, Financial Integrity Issues, Accounting and Financial Management Division, who can be reached on (202) 275-9449. Other major contributors to this report are listed in appendix V.

Sincerely yours,



Richard L. Fogel  
Assistant Comptroller General

# Contents

<hr/>		
Letter		1
<hr/>		
Appendix I		22
Background	BCCI's Initial but Unsuccessful Attempt to Obtain Control of First American	23
Information on BCCI's Control of First American Bankshares and Independence Bank	BCCI's Second and Successful Attempt to Acquire Control of First American	24
	Regulatory History	27
	BCCI Accepts Charges That It Secretly Owned Sufficient Shares to Control First American and Independence	29
<hr/>		
Appendix II		34
Analysis of BCCI's Washington, D.C., Representative Office Operations	Objectives, Scope, and Methodology	34
	Washington Office Activities	35
	Washington Office Finances	39
	Relationships With U.S. Government Officials	43
<hr/>		
Appendix III		47
The Federal Reserve Board's Special Examination to Determine If BCCI Influenced the Operations of First American Banks	Objectives, Scope, and Methodology	51
	Federal Reserve Special Examination Plan	51
	Implementation Plan	52
	Special Examination Results	56
	Deposits	61
	Cash	62
	Personnel	64
	Noninterest Expenses	64
	Other Aspects of the Special Examination	65
	Adequacy of the Federal Reserve's Special Examination	68
<hr/>		
Appendix IV		69
FDIC's Examination of Independence Bank	Objectives, Scope, and Methodology	69
	Background	70
	FDIC Special Examinations to Determine Whether BCCI Influenced Independence's Operations	74
	FDIC Documentation	79

---

Appendix V Major Contributors to This Report		81
Index		82
Tables		
	Table I.1: Key Events Related to BCCI's Secret Acquisition of First American Bankshares and Independence Bank, 1978-92	32
	Table II.1: BCCI Washington Representative Office Summary of Cash Receipts and Disbursements, 1984-May 1990	44
	Table II.2: BCCI Washington Representative Office Cash Flow Statement, 1986-88	45
	Table II.3: BCCI Washington Representative Office Statement of Operating Expenses, 1986-88	46
	Table III.1: Transaction Types Covered in the Federal Reserve's Special Examination	49
Figures		
	Figure I.1: Credit and Commerce American Holdings, N.V., Organization Chart, as of August 1991	26
	Figure II.1: BCCI Washington Representative Office's Sources of Cash Funds, 1986-88	40
	Figure II.2: BCCI Washington Representative Office's Use of Cash Funds, 1986-88	41

---

**Abbreviations**

BCCI	Bank of Credit and Commerce International
CCAI	Credit and Commerce American Investment
FDIC	Federal Deposit Insurance Corporation
IBA	International Banking Act of 1978
OCC	Office of the Comptroller of the Currency
SEC	Securities and Exchange Commission

# Background Information on BCCI's Control of First American Bankshares and Independence Bank

The Federal Reserve Board charged, in July 1991, that BCCI was a bank holding company through its acquisition of 25 percent or more of the shares of Credit and Commerce American Holdings—the parent of First American Bankshares—and Independence Bank.<sup>1</sup> Earlier that month it had announced the initiation of enforcement proceedings against BCCI and four individuals for their involvement with the illegal acquisition of Independence Bank.<sup>2</sup> The Federal Reserve Board charged that senior officials of BCCI set up secret arrangements with Mr. Ghaith Pharaon to have him acquire Independence Bank on behalf of BCCI. The Federal Reserve Board also charged that the secret arrangements were intended to conceal the transaction from FDIC and state regulators in violation of the Bank Holding Company Act of 1956 and other U.S. laws.

On July 29, 1991, the Board of Governors of the Federal Reserve System instituted formal enforcement proceedings against BCCI Holdings (Luxembourg) S.A., its two principal bank subsidiaries, and other parties for violations of U.S. banking laws. The Federal Reserve Board announced that the proceedings were based upon evidence of secret arrangements made between senior officials of BCCI and BCCI customers.<sup>3</sup> These arrangements allowed BCCI to acquire 25 percent or more of the shares of Credit and Commerce American Holdings, N.V., the parent company of First American Bankshares, Inc., in the customers' names. According to Federal Reserve officials, the Federal Reserve undertook additional enforcement actions in September 1991 after the Department of Justice permitted it to initiate several civil money penalty proceedings.

In January 1992, BCCI court-appointed fiduciaries publicly acknowledged that former BCCI management and operators had fraudulently and secretly acquired direct or indirect ownership and control over the shares of First American Bankshares and the shares of Independence Bank. They acknowledged this ownership as part of a court-approved plea agreement entered into by the court-appointed fiduciaries of BCCI and the Federal Reserve Board and other U.S. federal and state entities.

---

<sup>1</sup>Under § 3(a) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1842(a)), it is unlawful for any company to take action causing it to become a bank holding company except with prior Federal Reserve Board approval. Under the act, a bank holding company includes any company that directly or indirectly owns, controls, or has power to vote 25 percent or more of any class of voting securities of any bank or of any other company that is or becomes a bank holding company (12 U.S.C. 1841(a)).

<sup>2</sup>These individuals were Ghaith Pharaon, Agha Hasan Abedi, Swaleh Naqvi, and Kemal Shoaib.

<sup>3</sup>In support of these proceedings, the Federal Reserve Board alleged that the BCCI customers included Kamal Adham, Faisal Saud Al-Fulaij, A.R. Khalil, Sayed Jawhary, Humaid Bin Rashid Al-Naomi, Ali Mohammed Shorafa, and Mashriq Holding Company.



---

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

---

In July 1992, the Federal Reserve commenced a formal civil enforcement proceeding against Clark M. Clifford and Robert A. Altman. The Federal Reserve asserts that they engaged in violations of banking law and regulation and engaged in unsafe and unsound banking practices. The enforcement proceeding is in part to determine whether Clifford and Altman should be barred permanently from U.S. banking.

The information in this appendix was obtained from the Federal Reserve's publicly released charges or testimony related to BCCI control of U.S. banks and the plea agreement.<sup>4</sup>

---

**BCCI's Initial but  
Unsuccessful Attempt  
to Obtain Control of  
First American**

BCCI first tried overtly to gain control of Financial General Bankshares in 1977.<sup>5</sup> Working through agents, BCCI purchased slightly less than 5 percent of Financial General's shares for each of four foreign individuals whom it described as customers of BCCI. These individuals included two prominent citizens of Saudi Arabia and Kuwait and two sons of the ruler of Abu Dhabi. Each of the individuals kept his stake under 5 percent, presumably to avoid Securities and Exchange Commission (SEC) filing requirements applicable to publicly traded companies and also reporting requirements under the Bank Holding Company Act.

SEC filed a lawsuit in 1978 alleging that BCCI and other individuals had violated § 13(d) of the Securities Exchange Act of 1934 by failing to comply with certain information filing requirements pertaining to its status as a beneficial owner of more than 5 percent of the equity shares of Financial General. SEC charged that the individual investors were acting as a group. BCCI and the investors, without admitting fault, entered into a consent judgment with SEC on March 17, 1978, the provisions and terms of

---

<sup>4</sup>Testimony of J. Virgil Mattingly, Jr., General Counsel, and William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, before the Senate Subcommittee on Consumer and Regulatory Affairs of the Committee on Banking, Housing, and Urban Affairs, May 23, 1991.

Testimony of J. Virgil Mattingly, Jr., General Counsel, and William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, before the Senate Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, August 1, 1991.

Testimony of J. Virgil Mattingly, Jr., General Counsel, and William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System; E. Gerald Corrigan, President, Federal Reserve Bank of New York; Robert P. Forrestal, President, Federal Reserve Bank of Atlanta; Robert P. Black, President, Federal Reserve Bank of Richmond; and Thomas D. Thomson, President, Federal Reserve Bank of San Francisco, before the House Committee on Banking, Finance and Urban Affairs, September 13, 1991.

<sup>5</sup>Financial General Bankshares was renamed First American Bankshares in 1982.

which were settled and agreed to by the parties to the action. The investors agreed to either divest their shares or proceed with a tender offer for all of Financial General's shares. Three of the original four investors decided to proceed with the tender offer. They were joined by 11 additional individual and corporate investors from the Middle East.

In 1978, BCCI formed Credit and Commerce American Holdings, N.V., a foreign holding company set up in the Netherlands Antilles, to acquire control of Financial General. Credit and Commerce American Holdings' first acquisition attempt was made in a 1978 filing with the Federal Reserve Board on behalf of Credit and Commerce American Holdings' major shareholders, which included three BCCI customers and several other Middle Eastern individuals and companies. Financial General viewed Credit and Commerce American Holdings' attempt as a hostile takeover. The Federal Reserve Board dismissed the 1978 application, stating that approval would be a violation of Maryland state law, under which it was unlawful for a Maryland bank to have an affiliation to which the bank had not consented. At that time, Financial General had bank subsidiaries located in Maryland, New York, Tennessee, Virginia, and Washington, D.C.

---

## **BCCI's Second and Successful Attempt to Acquire Control of First American**

In late 1980, Credit and Commerce American Holdings again applied with the Federal Reserve Board to acquire Financial General. This time Financial General entered into a definitive agreement with Credit and Commerce American Holdings concerning a tender offer for Financial General shares. In considering the application, the Federal Reserve Board was aware of BCCI's role as an adviser to the investors and sought assurances that BCCI did not have a stake in Credit and Commerce American Holdings—which would control the U.S. institution—and was not funding the acquisition. During 1991 congressional hearings, Federal Reserve officials stated that, although at the time the Federal Reserve Board reviewed the application it did not have any evidence of fraud or illegality in BCCI's overseas banking operations, it had concerns about BCCI's unregulated character and rapid growth.

The Federal Reserve Board received and reviewed the investors' financial statements and other documents, such as the source of funds for the acquisition, as part of the application review process. These documents were consistent with the various representations made in the application package. The Federal Reserve Board, working through the U.S. Departments of State and Commerce and the Central Intelligence Agency, did background investigations of the investors. It also took what it

---

**Appendix I**  
**Background Information on BCCI's Control**  
**of First American Bankshares and**  
**Independence Bank**

---

considered an unusual step on April 23, 1981. It held a special hearing on the application at which several of the investors, including the largest investor, and their representatives participated.<sup>6</sup> The Federal Reserve Board noted that throughout this process it found no evidence that the shareholders and their representatives were being untruthful in their representations that BCCI was not involved in the financing of the acquisition.

The Federal Reserve Board also stated that during the application process it obtained the following commitments from Credit and Commerce American Holdings:<sup>7</sup>

- BCCI would have no financial interest in Credit and Commerce American Holdings or Financial General (later renamed First American).
- BCCI was not funding the acquisition of shares in Credit and Commerce American Holdings, and none of the Credit and Commerce American Holdings shareholders held an interest as an unidentified agent for BCCI.

In August 1981, the Federal Reserve Board approved Credit and Commerce American Holdings' acquisition of Financial General. The acquisition was consummated in April 1982, and Financial General was renamed First American Corporation in August 1982. Figure I.1 depicts the organizational relationship between Credit and Commerce American Holdings and First American Bank as of August 1991. Since August 1991, First American has sold two of its bank subsidiaries: Valley Fidelity Bank and Trust Company, Tennessee, and First American Bank of Pensacola, N.A., Florida.

---

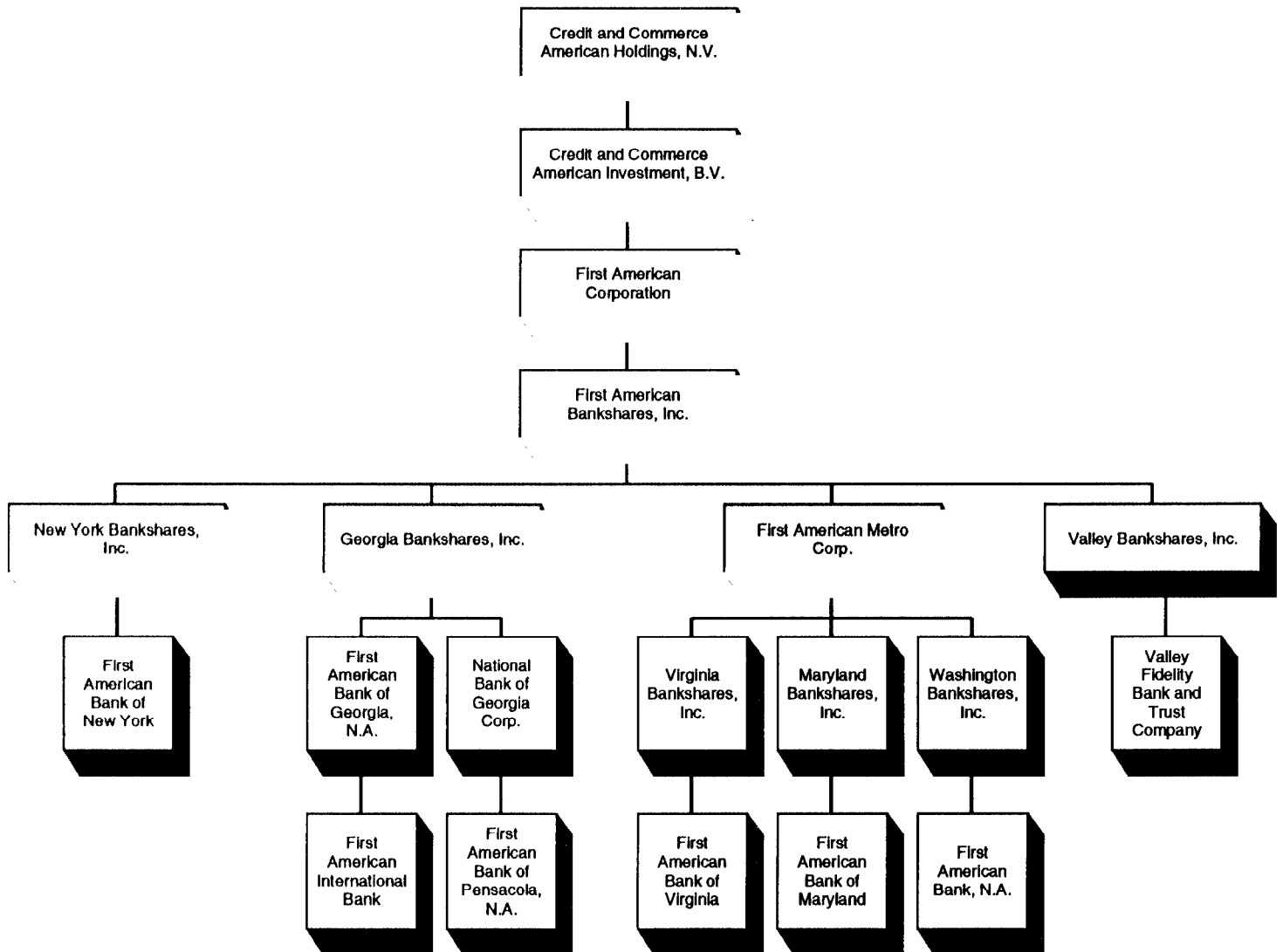
<sup>6</sup>There were 14 original investors in Credit and Commerce American Holdings. These included Kamal Adham, Faisal Saud Al-Fulaij, A.R. Khalil, Sayed Jawhary, Humaid Bin Rashid Al Naomi, Ali Mohammed Shorafa, and Mashriq Holding Company, all of whom the Federal Reserve Board has alleged entered into nominee arrangements with BCCI that allowed BCCI to gain control of Credit and Commerce American Holdings. Other investors included Abdullah Darwaish as a representative of Sheikh Mohammad bin Zayed al Nahyan, Mohammad Hussain Qabazard, Abu Dhabi Investment Authority, Crescent Holding Company, Gulf Investment & Real Estate Co., Real Estate Development Co., and Stock Holding Company.

The investors' representatives included their legal counsels, Clark M. Clifford and Robert A. Altman.

<sup>7</sup>These commitments were based on data submittals made to the Federal Reserve by the investors during the application process. The Federal Reserve Board states that in a written response to its questions concerning the relationship between BCCI and Credit and Commerce American Holdings, the applicants and their representatives said: "With regard to the stockholders of CCAH, all holdings constitute personal investments. None are held as an unidentified agent for another individual or organization."

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

**Figure I.1: Credit and Commerce American Holdings, N.V., Organization Chart, as of August 1991**



Note: Since August 1991, First American sold the First American Bank of Pensacola, N.A., and the Valley Fidelity Bank and Trust Company. Additionally, substantially all of the assets of the First American Bank of Georgia were sold on May 1, 1992. The organization chart does not include four wholly owned nonbank subsidiaries and three dormant nonbank subsidiaries.

Source: GAO analysis of Federal Reserve Board documents.

---

## Regulatory History

From 1982 through 1987, federal and state examinations of First American and its subsidiary banks were made by the Federal Reserve Board; Office of the Comptroller of the Currency (OCC); FDIC; and the states of Maryland, New York, Tennessee, and Virginia. State agencies also examined the U.S. offices of BCCI. During congressional hearings, the Federal Reserve has testified that the examinations detected no evidence that BCCI and Credit and Commerce American Holdings were improperly linked. During the same period, First American investors were not paid dividends on their investments and made additional capital infusions in excess of \$500 million.

Banking regulators first found problems with BCCI's U.S. operations in April 1987, when the Federal Reserve Board identified money-laundering activities being done through BCCI's Miami, Florida, agency. Criminal referrals were made to federal enforcement agencies. In October 1988, BCCI and a number of its U.S. employees were indicted for money laundering through BCCI's Tampa, Florida, agency. In October 1988, the Federal Reserve Board and state authorities commenced a coordinated examination of all BCCI's U.S. agencies. The examinations of the New York and Boca Raton, Florida, offices revealed other money-laundering activities, and additional criminal referrals were made. In June 1989, the Federal Reserve Board issued a cease and desist order against BCCI designed to strengthen the U.S. banking operations of BCCI and enforce compliance with currency-reporting requirements.<sup>8</sup> A cease and desist order is a formal enforcement action enforceable in the courts.

During congressional testimony in August 1991, Federal Reserve officials concluded that because of actions taken in 1988 by state and federal supervisory authorities as well as BCCI's plans to restructure its operations, BCCI would eliminate or substantially wind down its U.S. agencies and offices over the next 3 years.

The federal and state examinations of BCCI's U.S. agencies did not establish that an inappropriate or illegal relationship existed between BCCI and either Credit and Commerce American Holdings or the First American banks. In early 1989 through 1990, in response to undocumented reports of a BCCI/First American link, the Federal Reserve Board began contacting foreign regulators; the U.S. attorney in Tampa, Florida, responsible for the prosecution of BCCI's money-laundering offense; and other U.S. agencies.

---

<sup>8</sup>In the Matter of BCCI Holdings (Luxembourg) S.A., Luxembourg, Luxembourg; Bank of Credit and Commerce International, S.A., Luxembourg, Luxembourg, and its New York, Los Angeles, and San Francisco agencies, and Bank of Credit and Commerce International (Overseas) Limited, George Town, Grand Caymans, and its Miami, Tampa, and Boca Raton agencies (issued June 12, 1989).

---

**Appendix I**  
**Background Information on BCCI's Control**  
**of First American Bankshares and**  
**Independence Bank**

---

The Federal Reserve Board also began reviewing First American data to determine whether there was evidence indicating that an inappropriate relationship existed between BCCI and Credit and Commerce American Holdings. Federal and state authorities also conducted examinations of First American's banks. These efforts, through most of 1990, did not identify any inappropriate or illegal relationship between BCCI and either Credit and Commerce American Holdings or First American.

The Federal Reserve Board continued efforts with federal and state agencies to explore the existence of an inappropriate relationship between BCCI and U.S. depository institutions. In December 1990, Federal Reserve Board staff gained access to a report prepared by BCCI's external auditor—Price Waterhouse, United Kingdom—showing that BCCI made substantial loans to the shareholders of Credit and Commerce American Holdings, First American's parent. The audit report confirmed, for the first time, that BCCI held Credit and Commerce American Holdings shares as collateral for over \$1 billion in nonperforming loans made by BCCI to Credit and Commerce American Holdings' shareholders. In effect, BCCI controlled these shares of Credit and Commerce American Holdings. On January 4, 1991, the Federal Reserve Board issued an order formalizing its ongoing investigation of BCCI.<sup>9</sup>

---

<sup>9</sup>Under this order, the Federal Reserve formally initiated its investigation of Credit and Commerce American Holdings and its subsidiary, Credit and Commerce American Investment, B.V., and First American Bankshares for violations of law in connection with applications filed with the Federal Reserve; extensions of credit obtained by Credit and Commerce American Holdings, Credit and Commerce American Investment, or First American Bank from BCCI; the payment or settlement of any such extensions of credit; and any agreements or contracts between Credit and Commerce American Holdings, Credit and Commerce American Investment, First American Bank, BCCI, and any related present or former institution-affiliated parties regarding the purchase of Credit and Commerce American Holdings or Credit and Commerce American Investment shares or any settlement or repayment of any BCCI extension of credit to present or former institution-related parties of Credit and Commerce American Holdings, Credit and Commerce American Investment, or First American Bank.

---

## BCCI Accepts Charges That It Secretly Owned Sufficient Shares to Control First American and Independence

A November 15, 1991, indictment against four BCCI-related entities and three individuals associated with BCCI was followed by a superseding information filing on December 19, 1991, and an accompanying plea agreement.<sup>10</sup> In January 1992, the Department of Justice, various other federal and state entities, and BCCI court-appointed fiduciaries entered into the court-approved plea agreement.<sup>11</sup> The individuals included in the November 1991 indictment were not included in the plea agreement and are subject to continuing investigation.

As part of the plea agreement, the court-appointed fiduciaries acting on behalf of BCCI accepted the charges that BCCI secretly acquired direct or indirect control of First American Bankshares, the National Bank of Georgia before that institution was acquired by First American, and Independence Bank. They also accepted other charges alleging criminal activities by BCCI. In exchange for BCCI's fiduciaries' acceptance of these charges, Justice and the other federal and state agencies agreed to treat as resolved criminal investigations all charges, indictments, and criminal and civil proceedings against BCCI concerning matters occurring before July 5, 1991. This is the date that U.S., state, and foreign regulators seized many of BCCI's worldwide operations. The plea agreement does not preclude criminal prosecution of or civil action against culpable BCCI officers, employees, agents or entities (other than BCCI), or wrongdoers.

The plea agreement requires BCCI representatives to forfeit to the U.S. government BCCI's identifiable assets located in the United States. These BCCI assets have been estimated to total about \$550 million. The proceeds realized from the sale of these BCCI assets are to be used to establish two funds, a U.S. Disgorgement, Compensation, and Penalty Fund maintained by the Treasury Department within the Department of Justice Assets Forfeiture Fund ("U.S. Fund") and a Worldwide Victims and Creditors Compensation Fund maintained by the court-appointed fiduciaries ("Worldwide Victims Fund"). Subject to certain provisions, the first \$100 million from the asset sales would be disbursed to the U.S. Fund, the second \$100 million to the Worldwide Victims Fund. The remaining funds

---

<sup>10</sup>United States of America v. BCCI Holdings (Luxembourg) S.A., Bank of Credit and Commerce International S.A., Bank of Credit and Commerce International (Overseas) Limited, International Credit and Investment Company (Overseas) Limited, Agha Hasan Abedi, Swaleh Naqvi, and Ghaith Pharaon, Crim. No. 91-0655 (D.D.C. Nov. 15, 1991) (Superseded Indictment).

<sup>11</sup>Parties to the agreement included the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Resolution Trust Corporation, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Superintendent of Banks of the State of New York, and the Superintendent of Banks of the State of California.

---

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

---

realized from the sale of BCCI's assets would essentially be provided in equal amounts to the two funds.

The plea agreement specifies how money placed in the two funds can be used. It authorizes money in the U.S. Fund to be used to capitalize First American or Independence<sup>12</sup> to minimize the risk of potential loss to the Bank Insurance Fund or to reimburse the Bank Insurance Fund for any losses incurred in connection with the sale or disposition of these institutions,<sup>13</sup> pay a \$10-million fine imposed upon BCCI by the New York Supreme Court, compensate or reimburse federal and state agencies for their investigation and prosecution costs, satisfy any punitive forfeiture imposed by the Attorney General, provide additional restitution to BCCI victims, and reimburse various federal entities for costs of investigations and proceedings against BCCI and related persons and entities. The plea agreement specifies that the money placed in the Worldwide Victims Fund is to be distributed only to innocent depositors, creditors, and other victims of BCCI whose claims are not derived directly or indirectly through violations of U.S. or other laws concerning narcotics, terrorism, money laundering, crimes of violence, or other acts generally recognized as felonies or similar crimes under the laws of countries subscribing to recognized norms of international justice.

In July 1992, the Federal Reserve announced in connection with its continuing investigation that it had commenced a formal civil proceeding against Clark M. Clifford and Robert A. Altman. A hearing was scheduled for September 1992 in part to determine whether these individuals should be barred permanently from U.S. banking.

The Federal Reserve asserts that Clifford and Altman violated the Bank Holding Company Act of 1956, as amended, by participating in BCCI's illegal acquisition of control of Credit and Commerce American Holdings. The Federal Reserve Board additionally asserts that Altman violated the Bank Holding Company Act by participating in BCCI's acquisition and retention of control of National Bank of Georgia, that he made false statements to

---

<sup>12</sup>FDIC news release, PR-13-92, (Jan. 30, 1992). The state regulator seized and closed Independence Bank on January 30, 1992, before sufficient money was placed in the U.S. Fund that could be made available to recapitalize Independence. However, FDIC anticipates that it will be able to submit a claim to the U.S. Fund to seek reimbursement for any losses it may incur in resolving the failure of Independence Bank. Independence Bank had total assets of about \$555 million and total deposits of about \$530.2 million when it was closed.

<sup>13</sup>The plea agreement provides that, when these institutions are sold or otherwise disposed of, an amount equal to any such capital infusion or insurance fund payment is to be repaid to the U.S. Fund—with the balance of the sales proceeds to be paid in equal amounts to the U.S. Fund and the Worldwide Victims Fund.



---

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

---

the Federal Reserve Board in violation of 18 U.S.C. 1001, and that he enabled a party to acquire control of Credit and Commerce American Holdings in violation of the Control Act (12 U.S.C. 1817(j)). The Federal Reserve action also includes assertions that Clifford and Altman

- violated the Federal Reserve Board's order under the Bank Holding Company Act that approved Credit and Commerce American Holdings' acquisition of the First American banks.
- engaged in unsafe and unsound banking practices and breaches of fiduciary duty in connection with loans to Credit and Commerce American Holdings by permitting it to pay off a preferential-rate loan prior to maturity, replace it with a higher rate loan, and agree to a retroactive increase in the interest rate on the higher rate loan, all to the benefit of BCCI and the detriment of Credit and Commerce American Holdings.
- breached their fiduciary duties to the boards of directors of Credit and Commerce American Holdings and First American by failing to disclose to these boards personal financial arrangements with BCCI regarding their own shares of Credit and Commerce American Holdings, including preferential loans from BCCI to purchase the shares, and agreements under which BCCI would arrange for sale of the shares at a price acceptable to them and to BCCI.
- breached their fiduciary duties to the board of directors of Credit and Commerce American Holdings by buying shares of Credit and Commerce American Holdings at book value without disclosing to the managing directors all information material to the transaction.
- breached their fiduciary duty to the board of directors and shareholders of Credit and Commerce American Holdings and to the board of directors of First American by failing to disclose all information material to the decision to buy Credit and Commerce American Holdings and First American's decision to acquire the National Bank of Georgia.

The Federal Reserve had scheduled a hearing for late September 1992 for the purpose of taking evidence on the charges contained in its civil enforcement proceeding against Clifford and Altman commenced in July 1992 to determine in part whether an order should be issued that would permanently bar them from U.S. banking. In the July 1992 notice the Federal Reserve said that it is continuing its investigation of BCCI's activities in the United States, which it started in January 1991, and that it is continuing to work closely with the Justice Department and the New York County District Attorney's Office with regard to BCCI activities.

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

Table I.1 provides a chronology of key events associated with BCCI's acquisition of First American and Independence Bank.

**Table I.1: Key Events Related to BCCI's Secret Acquisition of First American Bankshares and Independence Bank, 1978-92**

<b>Year</b>	<b>Event</b>
1978	SEC files a complaint against BCCI and 10 individuals because they have acquired as a group more than 5 percent of Financial General Bankshares and subsequently failed to comply with certain information filing requirements for such shareholders under §13(d) of the Securities Exchange Act. The investors agreed to either divest their shares or proceed with a tender offer.
	Credit and Commerce American Holdings files an application with Federal Reserve Board to acquire Financial General Bankshares.
1979	Federal Reserve Board rejects Credit and Commerce American Holdings' application to acquire Financial General Bankshares.
1980	Credit and Commerce American Holdings applies again to the Board to acquire Financial General Bankshares.
1981	Federal Reserve Board approves the acquisition of Financial General Bankshares by Credit and Commerce American Holdings.
1982	Credit and Commerce American Holdings consummates acquisition of Financial General Bankshares and renames it First American Bankshares.
	Pharaon acquires the National Bank of Georgia, acting as a nominee for BCCI.
1985	Pharaon acquires Independence Bank, acting as a nominee for BCCI.
1987	Credit and Commerce American Holdings acquires National Bank of Georgia.
1988	Several BCCI officers and BCCI itself are indicted in Tampa, Florida, for money laundering.
1989	Federal Reserve Board begins a special inquiry into the relationship between Credit and Commerce American Holdings and BCCI. It finds no evidence of irregular or significant contacts between First American banks and BCCI.
1990	BCCI pleads guilty to money laundering in U.S. District Court in Tampa.
	BCCI closes its representative office in Washington, D.C.
	Federal Reserve Board staff member reviews report from BCCI's outside auditor that indicates that BCCI had made substantial loans to Credit and Commerce American Holdings shareholders, many of which were nonperforming, and that BCCI holds Credit and Commerce American Holdings stock as collateral on those loans. In effect, BCCI controls Credit and Commerce American Holdings shares.

(continued)

**Appendix I  
Background Information on BCCI's Control  
of First American Bankshares and  
Independence Bank**

<b>Year</b>	<b>Event</b>
1991	<p>Federal Reserve Board initiates formal investigation of whether or not BCCI has acquired control of First American Bankshares, Inc.</p> <p>Federal Reserve Board issues a variety of enforcement actions against BCCI and its top officials for their roles in illegally acquiring U.S. depository institutions, and also against Credit and Commerce American Holdings, forbidding transactions with BCCI.</p> <p>Regulators close BCCI operations in the United States, England, Luxembourg, the Cayman Islands, and elsewhere.</p>
1992	<p>A U.S. federal judge approves an agreement between BCCI's court-appointed fiduciaries and the federal and state agencies in which BCCI pleads guilty to illegally acquiring U.S. depository institutions and agrees to forfeit certain U.S. assets to the U.S. government.</p> <p>Federal Reserve Board commences a formal civil enforcement proceeding against Clark M. Clifford and Robert A. Altman in their capacities as directors of Credit and Commerce American Holdings and First American Bankshares, Inc., and as counsel for BCCI, to determine in part whether they should be barred permanently from U.S. banking. On the same day the Federal Reserve commences the action, federal and state grand juries indict Clifford and Altman for allegedly concealing information about BCCI from bank regulators.</p>

Source: GAO analysis of Federal Reserve Board documents, including public announcements of charges and enforcement actions and testimonies during congressional hearings; and the plea agreement entered into by BCCI's court-appointed fiduciaries and federal and state agencies.

# Analysis of BCCI's Washington, D.C., Representative Office Operations

A representative office of BCCI was located in Washington, D.C., between August 1984 and June 1990, when BCCI closed it.

## Objectives, Scope, and Methodology

In analyzing BCCI's Washington, D.C., representative office, our objectives were to

- identify the types of activities it conducted;
- determine how the office was financed, the total amounts involved, and the application of these funds; and
- identify any unusual financial transactions between the office and any U.S. government officials.

To identify Washington office activities, we reviewed correspondence and other files of this entity and—where available—other BCCI entities. We also interviewed former employees of the Washington office and other BCCI entities.

To examine Washington office finances, we reviewed financial records of the office, including intra-BCCI reports, books of original entry, invoices, checks, and bank statements. We did not conduct a financial audit of the office, but instead reconstructed summary financial reports for it. In doing so we did as follows:

- We compiled a summary of cash receipts and disbursements for each year beginning with the inception of the office in August 1984 through its closing in June 1990. We used management reports sent to BCCI headquarters officials and ledger sheets showing individual cash transactions for this analysis. We reconciled the book balance per the general ledger with the balance per the bank statement at each year end and at May 31, 1990. We were particularly alert for any indications of financial relationships between the office and U.S. public officials.
- We analyzed all cash transactions for the 3 years ending December 31, 1988, using financial reporting software and compiled key financial statements for 1986, 1987, and 1988. Nearly 60 percent of the Washington office's total expenditures during its existence were made during this 3-year period.
- We identified and investigated (1) all checks over \$2,000 issued by the Washington office that were payable to cash or to banks and (2) all expenditures that were supported by debit memoranda rather than by issued checks.

- 
- We summarized, from office payroll records, the gross payroll costs by employee and reconciled these costs with (1) payroll expenses in the statement of operating expenses for the same period and (2) payroll data generated by an outside service bureau for the office's tax liability report.
  - We identified and examined all cash expenditures during the 3 years ending December 31, 1988, that were charged to entertainment, travel, and donations, as well as the nominal payments made to political committees.

To identify any direct payments to U.S. government officials, we reviewed carefully the results of our work particularly with respect to our review of cash expenditures.

We confined the scope of our work to the activities and finances of BCCI's Washington office. Records we reviewed and BCCI officials we met with indicated that BCCI also conducted operations in Washington in which Washington office personnel had little or no involvement. Documentation for such activities was not available for our review.

---

## Washington Office Activities

BCCI established its representative office in Washington, D.C., in August 1984. As required by § 10 of the International Banking Act of 1978 (12 U.S.C. 3107), BCCI registered its office with the Secretary of the Treasury.<sup>1</sup> As a representative office, it was strictly limited in its functions: It could not conduct the traditional banking functions of making loans or taking deposits. Instead, a major purpose of the office appears to have been generating business for other BCCI entities or First American Bank.

BCCI viewed Washington, D.C., as a major domestic and international political center and thus an important location for developing business. BCCI saw the office as a vehicle for fostering valuable relationships with foreign embassies, international financial institutions, and U.S. government agencies. BCCI's Washington officials made contacts with organizations of this nature.

---

## Embassies

BCCI saw its Washington office as an important operation for developing contacts with influential officials in foreign embassies. It viewed Washington as perhaps the most important overseas post for most

---

<sup>1</sup>The Federal Deposit Insurance Corporation Improvement Act of 1991 (Act of December 19, 1991, P.L. 102-242, 105 Stat. 2236) increases federal banking agency supervision over representative offices of foreign banks. The act amends § 7 of the International Banking Act (12 U.S.C. 3105) to prohibit establishment of any representative office without prior Federal Reserve Board approval and provides for periodic examinations of and termination procedures for these offices.

countries. Ambassadors were considered to be especially influential people, both in their current position and in the prominent role they were likely to assume when they returned to their home countries.

BCCI-Washington office staff frequently involved officials of First American Bank in these activities. Marketing reports and other documents of this office referred to the close relationship between these two institutions. One marketing report specifically indicated that "all business that our [BCCI] own agencies in the U.S. are precluded from handling is being passed on to First American Bank."

According to documents we reviewed, Washington office officials made frequent calls on foreign embassies.<sup>2</sup> Many of these embassies were those of third world countries in which BCCI already had established entities. Through these contacts, the BCCI Washington office hoped to obtain deposit accounts maintained by the embassies as well as individual accounts of their staff. In some cases, officials of the First American Bank, Washington, D.C., accompanied BCCI Washington office officials. As a representative office, BCCI's Washington office could not accept any deposits itself; instead, it would refer this business to other BCCI entities or to the First American Bank. This U.S. bank could accept domestic deposits that were prohibited to U.S. BCCI affiliates.

For example, in April 1986 several BCCI Washington office and First American (D.C.) officers made a joint call on the Chinese embassy to try to obtain its deposit accounts for First American. BCCI correspondence indicated that the purpose of the meeting was to "introduce our friends from First American Bank in Washington, D.C." and to "lead to the development of a mutually beneficial relationship between the Embassy and First American" with whom BCCI's Washington office had a "close relationship." The meeting was with officers of the embassy's political section and had been arranged by the aide to the Chinese Ambassador. The Chinese embassy was one of the largest in Washington, with over 250 employees. It had separate accounts for each section of the embassy. The embassy officials indicated that it presently maintained its accounts with another U.S. bank and that this bank provided a Chinese-speaking officer to work with them. The First American officials said they were attempting to hire an officer with the same language skills. Washington office documents do not indicate whether First American was successful in attracting any of the embassy's accounts.

---

<sup>2</sup>Typical embassies that BCCI Washington office personnel visited were Pakistan, Ghana, the Philippines, Turkey, Malaysia, China, and Jamaica.

A similar effort was made by the head of the Washington office to obtain accounts from the Malaysian embassy. The approach was made this time directly to the Ambassador. According to an internal memo written by the Washington office director to BCCI management in London, "the purpose was to assess the possibilities of opening an account for the Embassy at our NY office and/or First American Bank." The memo indicated, however, that Malaysia was in the process of moving its banking business from U.S. banks to U.S. offices of Malaysian banks and that, therefore, "it would be difficult to get the Embassy accounts at this stage."

Washington office records indicated that the Washington office was successful in attracting some accounts for other BCCI entities and First American. Correspondence specifically mentioned a term deposit of over \$1 million acquired for First American from an embassy representing a third world country.

---

## U.S. Government Agencies

BCCI Washington office documents indicated that its officials contacted U.S. government agencies, such as the U.S. Agency for International Development, the Commodity Credit Corporation, and the U.S. Export-Import Bank, to identify potential business opportunities for itself or First American. These meetings and others with embassy officials helped BCCI identify the level of U.S. government programs planned for individual countries. This information, in turn, was used to identify where and when BCCI or First American should direct their marketing efforts. Overseas entities of BCCI or First American officials were sometimes encouraged to follow up with relevant officials in the respective foreign countries to improve BCCI's prospects for securing this business.

BCCI was particularly interested in obtaining Public Law 480 business for First American. Public Law 480 business, under a program jointly administered by the U.S. Department of Agriculture and the Agency for International Development, includes the provision of U.S. agricultural commodities to developing countries for dollars or local currencies on credit terms, at concessional rates of interest.<sup>3</sup> Banking institutions may participate in this program by issuing letters of credit to the U.S. exporter. Public Law 480 business was attractive because the U.S. government could provide banking institutions with letters of commitment assuring the bank of reimbursement for these payments. Working with First American Bank or any U.S. bank was necessary because opening the letters of credit under the Public Law 480 program can only be handled by U.S. banks, not

---

<sup>3</sup>7 U.S.C. 1701.

a representative office like BCCI's Washington office. Correspondence we examined indicated that BCCI officials understood that in some cases authorities in these foreign countries had significant influence in deciding which banks would be selected. Officials from BCCI's Washington and London offices visited a number of embassies in Washington together with First American representatives to solicit this business.<sup>4</sup> In these meetings, embassy officials often specified the agency and, in some cases, the official in the developing country, who selected the banks that would handle Public Law 480 business. In many cases, the relevant agency was the country's central bank, and documents indicated that BCCI or First American officials planned to follow up with appropriate officials in the country.

BCCI's headquarters office in London requested First American officials to send to it any follow-up letters they drafted. These would then be forwarded to the in-country BCCI office for delivery. First American officials were advised to use the term "correspondent bank" in these letters whenever they mentioned BCCI.

BCCI Washington office documents generally did not indicate what ultimate success it achieved in obtaining P.L. 480 business. Internal BCCI documents did indicate that Liberian Embassy officials "readily agreed to shift" some of this business to First American. Officials of the Philippine Embassy were also initially optimistic that First American would get some P.L. 480 business, but ultimately another bank was chosen by the Food Authority of the Philippines.

BCCI was attracted to the Agency for International Development's Private Sector Revolving Fund program, which was established to design and carry out private sector projects in developing countries. BCCI New York and Washington officials held meetings with Agency for International Development officials to explore the possibilities for BCCI entities to participate in this program. A specific project in Mauritius was identified in which BCCI would provide local currency financing. However, BCCI documents did not indicate whether this transaction was ever consummated.

---

## International Financial Institutions

A number of international financial institutions are headquartered in Washington, D.C., and BCCI's Washington office sought business

---

<sup>4</sup>Joint BCCI-First American (Washington) visits for this purpose were made to the embassies of Liberia, Ghana, Sri Lanka, the Philippines, Jamaica, Bangladesh, Kenya, Egypt, Sudan, and Zimbabwe.



opportunities with these as well. Contacts were made with the International Monetary Fund, the World Bank, and the Pan American Health Organization. The Washington office solicited deposits of the latter two organizations and, according to its documents, was successful in obtaining deposit accounts of the Colombian office of the Pan American Health Office. Efforts were not as fruitful in the case of the World Bank. Washington office documents indicate that the World Bank maintained that the absence of a home country central bank acting as the lender of last resort to BCCI made it especially difficult to place its deposits with BCCI. Documents also indicated that World Bank officials said they would need an opinion on or rating of BCCI from a private bank consulting firm before the World Bank would deposit funds in BCCI. BCCI apparently did not pursue acquiring such a rating.

In addition to soliciting World Bank deposits, the Washington office sought to participate in financing trade transactions associated with World Bank loans. According to its documents, BCCI was successful in opening a \$200 million line of credit for a World Bank fertilizer loan project in Nigeria.

---

### Protocol Requests

Other BCCI entities called on BCCI's Washington office to extend courtesies to influential people from all parts of the globe who were traveling through Washington. These people included government and central bank officials as well as customers of overseas BCCI entities.

Cash accommodations were sometimes part of these services. Washington office officials told us they would deliver cash or traveler's checks to important bank clients during their U.S. travels. These funds were drawn from BCCI's Washington office funds, which were reimbursed by other entities of BCCI.

---

### Washington Office Finances

The Washington office received its operating funds monthly from BCCI's home office. Monthly reports accounting for the use of these funds were sent to officials in Luxembourg and London.

---

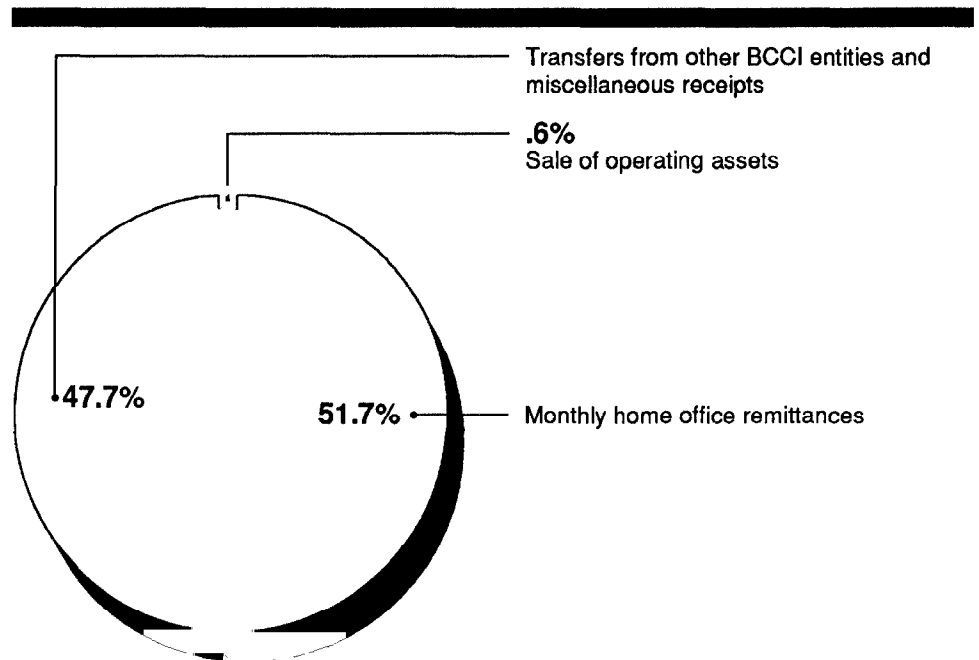
### Receipts

During the almost 6 years of its existence, BCCI's Washington office cash receipts totaled about \$19.1 million. (See fig. II.1 and table II.1.) About \$11.3 million of this amount was received in the 3 years ending December 31, 1988. Most of the receipts during that period (51.7 percent)

**Appendix II  
Analysis of BCCI's Washington, D.C.,  
Representative Office Operations**

came from monthly home office remittances sent to the Washington office, and a small amount (0.6 percent) was derived from the sale of representative office operating assets (e.g., automobiles and office equipment). The remaining receipts (47.7 percent) represented funds transferred to fund specific expenditures made at the direction of other BCCI entities or to reimburse the office for expenses incurred on their behalf and miscellaneous receipts. For example, BCCI entities reimbursed the Washington office for some of its payroll costs and the travel costs incurred on behalf of their customers. Most of these funds were provided by BCCI entities located outside the United States (London, the Cayman Islands, Abu Dhabi, Dubai, Luxembourg, and Panama). These transactions were recorded through clearing accounts in the representative office. Figure II.1 shows the Washington office's sources of cash funds for the 3-year period 1986 through 1988.

**Figure II.1: BCCI Washington  
Representative Office's Sources of  
Cash Funds, 1986-88**



Source: GAO analysis of BCCI's Washington, D.C., office financial records.

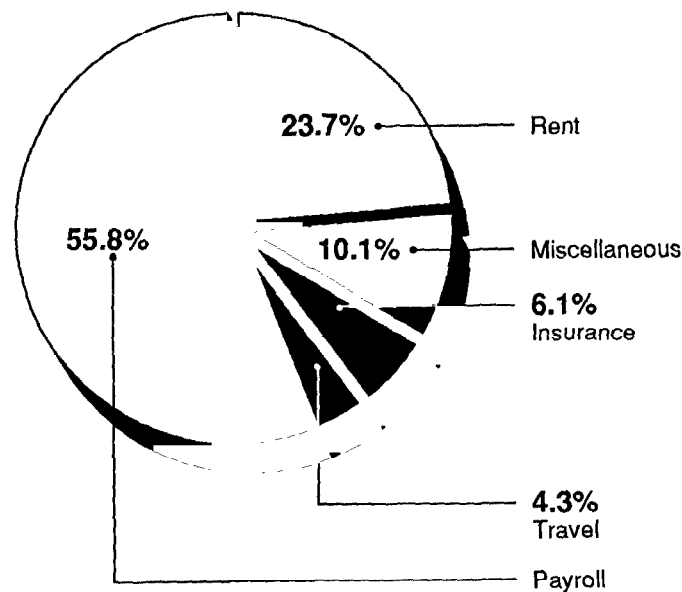
**Expenditures**

The Washington office spent about \$18.8 million during its existence, with about \$11.1 million occurring in the 1986 through 1988 period. (See tables

**Appendix II  
Analysis of BCCI's Washington, D.C.,  
Representative Office Operations**

II.1 and II.2.) In that 3-year period, 49.4 percent of expenditures were for office operating expenses. Figure II.2 and table II.3 show that the major categories of these expenditures were for such typical office expenses as payroll (55.8 percent), rent (23.7 percent), insurance (6.1 percent), and travel (4.3 percent). The miscellaneous category (10.1 percent) consists of such expenses as heat and electricity, telephone, repairs and maintenance, car expenses, stationery, postage and telecommunications, entertainment, donations, and subscriptions. Figure II.2 shows the Washington office's use of cash funds over the 3-year period 1986 through 1988.

**Figure II.2: BCCI Washington  
Representative Office's Use of Cash  
Funds, 1986-88**



Note: Miscellaneous expenses include costs such as utilities and telecommunications services. None of these costs exceeded 2 percent of the total costs reviewed during the 3-year period 1986-88.

Source: GAO analysis of BCCI's Washington, D.C., office financial records.

Most of the Washington office's nonoperating expenditures (\$5.3 million) were payments directed by other BCCI entities. These payments represented cash outlays associated with the funds transferred from these

other entities mentioned earlier. We reviewed all transactions over \$2,000 recorded through the Washington office's clearing accounts that involved either (1) checks made payable to cash or banks or (2) debit memoranda, which included other charges to the Washington office account as a result of instructions received from other BCCI entities. In total, these transactions numbered 52 and amounted to about \$2.4 million. Former officials of the representative office told us that in such cases the Washington office was following instructions received from other BCCI entities. Such instructions may have called for BCCI's Washington office to issue a certified check to a stipulated party or to transfer funds to or purchase travelers checks for the account of a designated individual. Usually these individuals were purported to be clients of some BCCI entity. In some cases, they were said to be wealthy Middle Eastern clients traveling in the United States for whom these transactions provided a means to transfer cash from their overseas BCCI accounts. Documentation associated with some of these transactions supported such explanations. However, evidence to make a conclusive judgment about these transactions was not present and may exist, if at all, only in overseas records of BCCI not presently available to us.

## Payroll

Approximately 20 people worked in the Washington office at any one time during the 3 years ending December 31, 1988. There exists one set of computerized payroll records generated by a service bureau that shows payroll expenses of \$3,135,955 for this period. The tax liability report, which was also generated by the service bureau, shows additional payroll expenses of \$153,506. This difference may represent the value of other taxable benefits provided to Washington office personnel, such as housing allowances. However, we could not locate any detail to support the computation of such benefits.

Total payroll expenses for the 3 years ending December 31, 1988, amounted to \$3,531,182. It was comprised of the \$3,135,955 as reflected in the computerized payroll records plus \$395,227 for cash expenditures for payments of mortgage loans for employees, payments to an employee benefit fund, payments to temporary agencies for services of part-time help, etc.

The total payroll expenses (\$3,531,182) were allocated to the Washington office (\$3,056,677) and to three other BCCI entities (\$474,505), which were located in London, Miami, and Grand Cayman. Ex-Washington office officials told us that responsibilities of some employees who worked in the

office extended beyond representative office affairs. However, we were not able to locate the records to determine the basis used to allocate payroll expenses to the Washington office and other BCCI entities.

---

## **Relationships With U.S. Government Officials**

In our detailed review of BCCI's Washington office financial records for 1986 through 1988, we found that it was a normal business practice of BCCI to send gift baskets to nominal value during holidays and throughout the year to employees, certain officials of First American Bank, and other individuals. However, we found no evidence of direct payments to U.S. government officials. In addition, only nominal contributions to two political committees totaling \$460 were reflected in these records. One political committee purportedly received three separate contributions of \$100 each, one check payable to and endorsed by the political committee, and the other two checks payable to employees to reimburse them for contributions they made to the same committee. A second set of checks purportedly for political committee purposes were also made payable to two employees for \$60 and \$100, respectively. All checks payable to employees were charged to the office's accounts with a reference made to the effect that these checks were for the purpose of political contributions. Upon receiving notification of these payments and reviewing the documentation, the congressional offices associated with these committees advised us that they planned to take immediate action to return the contributions. We have referred these matters to the Federal Election Commission. Other Washington office documents we reviewed did not reveal any questionable financial dealings between such U.S. officials and BCCI. Former Washington office officials have also steadfastly maintained in discussions that very infrequent contacts occurred between the office and U.S. public officials, and none admitted knowledge of any illegal or questionable financial dealings with these officials.

**Appendix II  
Analysis of BCCI's Washington, D.C.,  
Representative Office Operations**

**Table II.1: BCCI Washington Representative Office Summary of Cash Receipts and Disbursements, 1984-May 1990**

<b>Cash receipts and disbursements</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>Total</b>
Cash at beginning of period	\$ 0	\$ 30,599	\$ 269,704	\$ 402,694	\$ 527,930	\$ 428,597	\$ 407,305	\$ NA
Add cash receipts	1,863,186	2,763,336	4,067,865	4,114,912	3,078,460	2,589,927	616,490	19,094,176
Cash available for the period	1,863,186	2,793,935	4,337,569	4,517,606	3,606,390	3,018,524	1,023,795	NA
Less expenditures	1,832,587	2,524,231	3,934,875	3,989,676	3,177,793	2,611,219	691,558	18,761,939
Cash balance at end of period	30,599	269,704	402,694	527,930	428,597	407,305	332,237	NA
<b>Composition of cash balance</b>								
Bank balance per bank statement	72,327	276,201	413,367	529,085	428,682	410,420	330,737	NA
Less outstanding checks at end of period	41,885	6,739	18,673	9,286	8,085	11,115	0	NA
Add bank error	0	0	0	131	0	0	0	NA
Bank balance per books at end of period	30,442	269,462	394,694	519,930	420,597	399,305	330,737	NA
Cash on hand at end of period	157	242	8,000	8,000	8,000	8,000	1,500	NA
Cash at end of period	30,599	269,704	402,694	527,930	428,597	407,305	332,237	NA
Increase (decrease) in cash	\$ 30,599	\$ 239,105	\$ 132,990	\$ 125,236	\$(99,333)	\$(21,292)	\$(75,068)	NA

Note: NA denotes not applicable.

Source: BCCI Washington representative office financial records.

**Appendix II  
Analysis of BCCI's Washington, D.C.,  
Representative Office Operations**

**Table II.2: BCCI Washington Representative Office Cash Flow Statement, 1986-88**

<b>Description</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>Total</b>	<b>Percentage of total</b>
<b>Sources of cash</b>					
Remittance from home office	\$1,900,001	\$1,986,681	\$1,936,996	<b>\$5,823,678</b>	51.7
Sale of operating assets	37,270	27,013	0	<b>64,283</b>	0.6
Other cash receipts (sundry debtors/creditors, etc.)	2,130,594	2,101,218	1,141,464	<b>5,373,276</b>	47.7
<b>Total cash receipts</b>	<b>4,067,865</b>	<b>4,114,912</b>	<b>3,078,460</b>	<b>11,261,237</b>	<b>100.0</b>
<b>Uses of cash</b>					
Cash operating expenses	1,759,797	1,786,734	1,935,031	<b>5,481,562</b>	49.4
Additions to property and other assets	62,812	151,574	84,524	<b>298,910</b>	2.7
Additions to sundry debtors/creditors	2,112,266	2,051,368	1,158,238	<b>5,321,872</b>	47.9
<b>Total cash expenditures</b>	<b>3,934,875</b>	<b>3,989,676</b>	<b>3,177,793</b>	<b>11,102,344</b>	<b>100.0</b>
Increase (decrease) in cash	132,990	125,236	(99,333)	<b>158,893</b>	
Cash at beginning of period	269,704	402,694	527,930	<b>269,704</b>	
Cash at end of period	402,694	527,930	428,597	<b>428,597</b>	
<b>Increase in cash presented by</b>					
<b>(Increase) decrease in asset</b>					
Receivables	(3,388)	64,348	(14,604)	<b>46,356</b>	
Properties	105,082	8,537	51,528	<b>165,147</b>	
<b>(Decrease) increase in liabilities and home office</b>					
Current liabilities	21,717	(14,499)	(2,171)	<b>5,047</b>	
Home office account	9,579	66,850	(134,086)	<b>(57,657)</b>	
<b>Net increase (decrease) in cash</b>	<b>\$132,990</b>	<b>\$125,236</b>	<b>\$(99,333)</b>	<b>\$158,893</b>	

Source: BCCI Washington representative office financial records.

**Appendix II  
Analysis of BCCI's Washington, D.C.,  
Representative Office Operations**

**Table II.3: BCCI Washington Representative Office Statement of Operating Expenses, 1986-88**

	1986	1987	1988	Total	Total (percent)
<b>Expenses</b>					
Payroll	\$ 848,321	\$1,021,844	\$1,186,512	<b>\$3,056,677</b>	55.8
Rent-office	570,057	358,600	368,543	<b>1,297,200</b>	23.7
Insurance	82,557	112,207	139,479	<b>334,243</b>	6.1
Travel	70,973	96,786	65,465	<b>233,224</b>	4.3
<b>Subtotal</b>	<b>1,571,908</b>	<b>1,589,437</b>	<b>1,759,999</b>	<b>4,921,344</b>	<b>89.9</b>
Miscellaneous:					
Electric and heat-residence <sup>a</sup>	7,944	5,379	3,887	<b>17,210</b>	0.3
Legal expenses	2,695	2,641	2,859	<b>8,195</b>	0.1
Postage and communications	19,098	28,903	24,629	<b>72,630</b>	1.3
Telephone-office	25,648	24,293	23,922	<b>73,863</b>	1.3
Telephone-residence <sup>a</sup>	11,502	11,631	9,125	<b>32,258</b>	0.6
Repairs and maintenance	9,856	16,198	13,266	<b>39,320</b>	0.7
Stationery	14,840	11,020	11,081	<b>36,941</b>	0.7
Entertainment	25,593	25,418	16,180	<b>67,191</b>	1.3
Car expenses	21,020	19,082	21,635	<b>61,737</b>	1.1
Subscriptions, etc.	7,231	7,545	8,870	<b>23,646</b>	0.4
Cartage and freight	2,550	8,192	831	<b>11,573</b>	0.2
Bank charges, etc.	8	0	108	<b>116</b>	0
Other	39,904	36,995	26,203	<b>103,102</b>	1.9
Donations	0	0	12,436	<b>12,436</b>	0.2
<b>Total miscellaneous</b>	<b>187,889</b>	<b>197,297</b>	<b>175,032</b>	<b>560,218</b>	<b>10.1</b>
<b>Total cash operating expenses</b>	<b>1,759,797</b>	<b>1,786,734</b>	<b>1,935,031</b>	<b>5,481,562</b>	<b>100.0</b>
Depreciation	130,624	133,098	136,052	<b>399,774</b>	
<b>Total</b>	<b>\$1,890,421</b>	<b>\$1,919,832</b>	<b>\$2,071,083</b>	<b>\$5,881,336</b>	

<sup>a</sup>Represents costs incurred by senior officials for work done at nonwork locations, such as their residences, and paid for by the Washington representative office.

Source: BCCI Washington representative office financial records.



# The Federal Reserve Board's Special Examination to Determine If BCCI Influenced the Operations of First American Banks

In early January 1991, the Federal Reserve Board launched a formal investigation into BCCI's illegal acquisition of shares in Credit and Commerce American Holdings, the parent of First American, and First American's relationship with BCCI after encountering evidence that BCCI controlled that banking organization. The investigation included a special examination of the First American banking organization. The Federal Reserve committed large numbers of staff to this special examination, especially from May 1991 through July 1991.<sup>1</sup> The investigation is ongoing and the special examination is continuing at a reduced level. Federal Reserve officials told us that the investigation and special examination are unprecedented in the expense and the staffing levels devoted to them and that the level of effort and depth of analysis far exceed that expended in a regular problem bank review.

The Federal Reserve's investigation had two major objectives. The first was to find evidence through the special examination of any BCCI influence over First American's operations that resulted in an adverse impact on the banks. The second was to uncover evidence of how BCCI gained control of shares in Credit and Commerce American Holdings, and how it may have attempted to gain influence over the operations of First American to its own benefit, which might indicate violations of U.S. banking laws. To date, the Federal Reserve has found no evidence that BCCI control of First American resulted in operations that improperly benefited BCCI or BCCI-related entities at the expense of the U.S. banks. Therefore, it has concluded on a preliminary basis that no such evidence exists. The Federal Reserve is continuing its investigation into the second objective.

---

## Objectives, Scope, and Methodology

This appendix discusses our review of the Federal Reserve's special examination into its first investigation objective. We did not look into that part of the Federal Reserve's investigation designed to determine how BCCI gained control and may have influenced the operations of First American. We wanted to avoid interfering with potential law enforcement activities focused on these aspects of the relationship between First American and BCCI.

We reviewed the Federal Reserve's special examination plan (shown in table III.1) for First American in order to determine whether it would be expected to uncover evidence of an adverse BCCI influence on First

---

<sup>1</sup>When this part of the Federal Reserve's investigation began in mid-April, approximately 24 people were involved. Staffing reached its height of 52 people in mid-June and decreased in late August to between 3 and 6 people, varying on a weekly basis. Federal Reserve officials estimated that approximately 9 staff years have been spent on this portion of the investigation.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

American's operations. To do this review, we evaluated the areas the Federal Reserve covered in its special examination and determined whether potential areas of abuse existed that the special examination failed to address. We reviewed the Federal Reserve's approach in terms of staffing, expense, and areas and types of transactions covered; we then compared it to the approach employed during a routine bank examination, noting transactions covered by the special examination that would either not be reviewed during a routine examination or not be reviewed in such depth.

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

**Table III.1: Transaction Types Covered  
in the Federal Reserve's Special  
Examination**

<b>Area of concern</b>	<b>Bank activities examined</b>
Loans	Charged-off loans Overdrafts Paid-off loans Insider loans Loans secured by certificates of deposit Commercial and development loans Letters of credit on real estate Participants
Deposits	BCCI deposit activity, including time deposits Large deposits and high-activity accounts Official checks Checking account activity of key officers and directors Deposit outflows
Personnel	Current and former employees Profiles of senior officials of banks and holding company
Cash	Bank Secrecy Act compliance Wire transfer activity Cash shipments to and from First American
Noninterest expense	Travel and entertainment expenses Professional and consulting fees Major vendors, contributions, and major income/expense activity
General	Off-balance-sheet activity Criminal referrals Customer complaints Loan agreements at holding company Major balance sheet changes Litigation involving First American Investment securities Leases and major purchases of fixed assets Large dormant assets <sup>a</sup> Sales of other real estate owned

<sup>a</sup>These include unusual items such as other real estate owned not carried as such and/or other miscellaneous items.

Source: Federal Reserve Board.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

We interviewed Federal Reserve officials involved with planning and carrying out the special examination of First American and reviewed the Federal Reserve's special examination files at the Federal Reserve Banks of Richmond and Atlanta and at Federal Reserve headquarters in Washington, D.C. When reviewing the special examination files, we sought to verify that the Federal Reserve did the work indicated in its special examination plan and by Federal Reserve officials in interviews. We also assessed how thoroughly the officials evaluated First American's operations in the areas set out in the plan.

Our ability to do this review varied, based on the area of the special examination. We were not always able to find evidence in the Federal Reserve's files indicating that officials did the planned work. Federal Reserve officials told us that their files were not representative of all of the work done. The officials said that in some instances they reviewed an area of First American's operations and found nothing unusual but did not document all the work done to reach this conclusion. In such cases, we sought to confirm that the work had been completed. For example, in many cases the Federal Reserve examiner wrote a summary memo describing the work completed and his/her conclusions.

In other cases the files had enough material to support our belief that the work had been done. For example, the files for a review of charged-off loans at one bank contained printouts of charged-off loans by borrower and by cost center for the periods reviewed, a Federal Reserve-generated printout of loans reviewed indicating whether or not the borrower appeared to be related to BCCI, and a variety of other bank-generated information about the loans.

At times, the files contained the primary source documents used for the special examination, for example, checking account statements, expense reports, travel vouchers, and billing documents for legal and other consulting expenses. Summary spreadsheets prepared by Federal Reserve examiners appeared throughout the special examination files.

The documentation in the files, while not complete, and detailed discussions with officials responsible for managing the special examination, were generally sufficient to let us conclude that the Federal Reserve had carried out the work steps as planned and that this work was sufficient to lead to its conclusions.

---

## **Plea Agreement**

As a part of a court-approved plea agreement (see app. I), BCCI's court-appointed fiduciaries agreed to cooperate with the Federal Reserve in its investigation of BCCI-related wrongdoing. Provisions in the plea agreement require the fiduciaries to produce investigative information under their control including documents, tangible evidence, or other information concerning BCCI and BCCI-related activities, entities, and individuals. The Federal Reserve anticipated that this provision of the plea agreement would provide it with access to previously unavailable information on the extent and nature of BCCI's operations. However, such access had not been provided at the time we concluded our work. Therefore, we do not know whether information that may in the future be made available to the Federal Reserve might indicate that BCCI has benefited improperly from its secret control of U.S. banks.

---

## **Federal Reserve Special Examination Plan**

---

### **Bank Operations Covered in the Plan**

The Federal Reserve developed a general plan for its approach to the First American special examination. This plan listed the areas of First American operations that officials felt had to be reviewed and some general types of transactions within those areas that it believed were of particular importance. (See table III.1.) On the basis of their experience in examining banks and bank holding companies, Federal Reserve officials believed that any abusive influence by BCCI on First American's operations—if it occurred—would have been carried out in the areas covered in their plan.

We believe that the special examination plan was adequate in that it includes the types of bank operations that could reasonably be expected to reveal BCCI's influence. It was appropriately comprehensive, covering all areas usually reviewed during bank safety and soundness and Bank Secrecy Act<sup>2</sup> compliance examinations. In addition, it covered areas not routinely examined, such as any BCCI association of any individuals formerly employed by First American. Focusing on areas in which abusive control might be expected, the plan called for these areas to be explored

---

<sup>2</sup>The Bank Secrecy Act of 1970, as amended (12 U.S.C. 1829, 1951-1959 and 31 U.S.C. 5311-5326), requires recordkeeping and reporting by financial institutions (in such areas as check reproductions, identities of account holders, and certain categories of currency transactions) for use in criminal, tax, and regulatory investigations and proceedings.

---

in greater depth. For example, all charged-off loans over \$50,000 were scheduled for review.

In its special examination in these areas, the Federal Reserve focused on bank operations that might both be abusive and benefit BCCI. It did not plan to cover bank operations that could be defined as "normal banking transactions," even if they represented poor judgment on the part of the bank in terms of safety and soundness, as long as these transactions did not involve BCCI-related entities. (This would be the responsibility of the bank's primary federal and state banking agencies and be done during regular examinations of the bank.)

Similarly, if Federal Reserve examiners identified First American business transactions with BCCI that were openly conducted, they then sought to determine if the transactions would have been carried out by similar banks under similar circumstances. If so, they would have concluded they were normal banking transactions. For example, First American Bank of New York had an extensive correspondent banking relationship<sup>3</sup> with BCCI and did thousands of wire transfers among BCCI entities, but it charged market fees to do so.

---

## Implementation Plan

---

### Segments of the Plan

The Federal Reserve followed the same general approach in carrying out the special examination plan at each of the First American bank subsidiaries. It divided First American into four segments for special examination purposes and used examiners from all 12 Federal Reserve Banks. The First American Bank of New York (First American, New York) was examined by staff from the Federal Reserve Bank of New York. The First American Metro Corporation (First American, Metro) banks, which include the First American Banks of Maryland, Virginia, and Washington, D.C., were examined by Federal Reserve Bank of Richmond staff. The First American Bank of Georgia (First American, Georgia), formerly the National Bank of Georgia, was examined by Federal Reserve Bank of

---

<sup>3</sup>A correspondent banking relationship involves one bank holding the deposits of another and performing banking services for that bank, such as check clearing. The deposit balance is a form of payment for services. A correspondent bank also may participate in loans of another bank and give the bank access to financial markets, such as the foreign exchange market or financial futures market, that the bank may not have access to.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

Atlanta staff.<sup>4</sup> Another segment of the examination, also done by staff from the Federal Reserve Bank of Atlanta, looked at First American's Edge Act corporation in Miami.<sup>5</sup> (See organization chart in app. I.) The segments of the special examination were carried out simultaneously.

In addition to the First American Banks, First American Bankshares owned Valley Fidelity Bank and Trust Company in Knoxville, Tennessee, which it acquired in 1982 as a subsidiary of Financial General and sold in the fall of 1991. The Federal Reserve did not examine this bank in the way it did the rest of the subsidiaries because the bank was under a sale agreement, and the acquiring bank had conducted its own "due diligence"<sup>6</sup> of the bank's assets and liabilities. In addition, Federal Reserve officials told us that Valley Fidelity has generally maintained a satisfactory condition and usually was far removed from the other First American subsidiaries in the bank holding company structure and its business activities. However, the Federal Reserve did check its list of BCCI-related names against Valley Fidelity's customer information files, finding nothing.

First American also owned the First American Bank of Pensacola, Florida, until January 1992, when it sold the bank to a group of investors led by the bank's president. Because of the bank's size (approximately \$50 million in assets) and the fact that First American had only owned it for 3 years, the Federal Reserve did a limited special examination of the bank. This special examination included matching the Federal Reserve's list of BCCI-related names against the bank's customer information files, reviewing a sample of the bank's loans over \$50,000, and reviewing the bank's travel expenses for 1988 and 1989. The First American Bank of Pensacola was a subsidiary of the same parent bank holding company as the First American Bank of Georgia and did all of its wire transfers through that bank. Its wire transfers were therefore subject to evaluation in the Federal Reserve's review of wire transfers at the First American Bank of Georgia.

In February 1990, by order of its board chairman, First American itself had launched an internal study into its relationship with BCCI. It had done so in

---

<sup>4</sup>First American acquired the National Bank of Georgia in 1987 and renamed it First American Bank of Georgia. Before that time, the bank was owned by Ghaith Pharaon, a Saudi Arabian businessman who acted as a nominee for BCCI as described in July 12, 1991, and July 29, 1991, Federal Reserve issuances.

<sup>5</sup>Section 25A of the Federal Reserve Act (12 U.S.C. 611-631) authorizes the organization and Federal Reserve supervision of corporations (designated "Edge Act corporations") set up for the purposes of engaging in international or foreign banking or other international and foreign operations.

<sup>6</sup>Due diligence is the responsibility of bank directors and officers to act in a prudent manner in making decisions for the bank. In the case of a bank acquisition, the directors and officers of the acquiring bank would thoroughly review the assets and liabilities of the bank they are considering acquiring.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

response to the increased press attention to BCCI's alleged ownership of First American. Federal Reserve examiners used the findings of the First American study as an additional source for their own special examination. However, a Federal Reserve examiner told us that the Federal Reserve review of First American went deeper than this review and that they verified any information from First American's study before relying on it.

---

**Presence of Other Federal  
and State Regulators**

Beginning in January 1991, with the assistance of examiners from FDIC, OCC, and the states of Maryland, New York, and Virginia, the Federal Reserve matched its list of BCCI-related names against the customer information files at all of the First American subsidiary banks. The customer information file contains information on any individual or customer who has either borrowed money from or deposited money with the bank. During this same period regular bank examinations had either just been completed or were in process at each of the subsidiary banks. An inspection of the holding company was under way as well. These examinations in many cases covered some of the same areas of the banks' operations as the Federal Reserve's special examination but were not as in-depth. Federal Reserve officials believe, however, that the presence of the other banking agencies that were examining some of the same areas of the banks as the Federal Reserve provided further assurance of the reliability of the overall special examination findings.

Officials from all three federal agencies advised us that they maintained contact with each other throughout the special examination. In addition to coordinating with examiners from the other regulatory agencies on-site at the banks, Federal Reserve officials held and led biweekly meetings of all regulators who had jurisdiction over any of the BCCI-controlled banks. The meetings were intended to keep all of the regulatory agencies informed about the findings of the various examinations and special examinations and the condition of the banks. Although the meetings were not formally recorded, banking agency officials did keep informal minutes or notes of the meetings.

---

**List of BCCI-Related  
Names**

The Federal Reserve developed a list of names of individuals and business entities related to BCCI from a variety of sources. Federal Reserve examiners first obtained names on the initial application of investors in Credit and Commerce American Holdings, the bank holding company they



---

**Appendix III**  
**The Federal Reserve Board's Special**  
**Examination to Determine If BCCI**  
**Influenced the Operations of First American**  
**Banks**

---

formed in order to acquire First American.<sup>7</sup> Names from the initial phases of the Federal Reserve's investigation, including the Federal Reserve officials' trip to Abu Dhabi in March 1991, were included on the list.<sup>8</sup> Federal Reserve examiners also reviewed press articles and included any BCCI-related names from those articles. The Federal Reserve's final working list included about 200 BCCI-related names of individuals and entities. However, because BCCI's organizational structure and operations are complex, and because of BCCI's past use of secret arrangements to conduct certain transactions, we believe that the Federal Reserve cannot be certain that all of BCCI's direct and indirect ties have been identified.

Federal Reserve examiners cross-checked the names on this list against First American's customer information files and against other records as they reviewed First American operations in order to determine whether the same names appeared in transactions or areas of interest to the Federal Reserve. For example, they checked the names against a list of First American charged-off loans. Federal Reserve examiners had to match the list to First American's records manually, which took a long time because First American's records were not sufficiently automated to allow a faster computer-based comparison with the Federal Reserve's list. The Federal Reserve files, particularly the summary memos, contain numerous references to the use of the list.

The Federal Reserve shared the list of BCCI-related names with OCC and FDIC examiners, so that they would be aware of BCCI-related names while doing regular examinations of First American's subsidiary banks over the remainder of 1991. FDIC used the list in its special examination into BCCI's relationship with Independence Bank in Encino, California (see app. IV).

---

**Use of First American Data**

The Federal Reserve used First American data during its special examination. This use is of concern because it creates the possibility that data were altered in a way that might obscure the true nature of an operation or transaction. Officials advised us that such reliance is necessary in a routine bank examination and was necessary for the special examination because there is generally no source of data on a specific

---

<sup>7</sup>At the time that Credit and Commerce American Holdings acquired First American Bankshares, it was named Financial General Bankshares. Financial General Bankshares was renamed First American Bankshares in 1982, shortly after its acquisition by Credit and Commerce American Holdings was finalized.

<sup>8</sup>In early January 1991 the Federal Reserve developed its initial list of BCCI-related names, which included approximately 120 names. The Federal Reserve added names to its list during the early stages of its investigation, resulting in its list of 200 BCCI-related names in April 1991, which was continuously updated.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

bank's operations other than the bank itself. They said that to the extent possible, however, they verified the bank data by reconciling it with other records within the bank. For example, printouts of outstanding or charged-off loans can be, and in this case were, reconciled to the loan files or to prior-period printouts. In addition, banks are required to keep copies of debit and credit slips for individual transactions, and Federal Reserve examiners can, and in this case did, examine these in order to verify the accuracy of bank printouts.

---

## **Special Examination Results**

The Federal Reserve's special examination of First American has not uncovered evidence of adverse BCCI control over First American's operations. A description of each major area in the special examination and a discussion of the Federal Reserve's examination activities are contained in the following sections.

---

## **Charged-Off Loans**

Loans are charged off—their value written down to zero—because no further collection is expected and full repayment of a loan is considered unlikely. This is an area with potential for abuse. Charged-off loans to BCCI-related entities would represent a loss to a BCCI-controlled bank that is directly attributable to BCCI.

The Federal Reserve reviewed all charged-off loans over \$50,000 since 1982 at the five First American subsidiary banks examined, and since 1989 at the First American Bank of Pensacola, Florida. When reviewing a charged-off loan, Federal Reserve examiners first determined whether or not the borrower's name appeared on the Federal Reserve list of BCCI-related names or whether any of the borrower's related entities appeared on the list. They also noted the terms of each loan, including the interest rate, in order to determine if there was anything unusual about the loan.

Federal Reserve examiners compiled a list of names associated with the charged-off loans they reviewed. This list contained the name of the borrower and, in some cases, guarantor of the loan. If the borrower was a company, the examiners would also add the names of the principals of the company to the list. The list eventually contained approximately 5,000 names. Federal Reserve examiners compared this list with the list of 200 BCCI-related names.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

Also, examiners wished to see if charged-off loans might be associated with other transactions in a way that would indicate an abuse of the bank or a flow of funds out of the bank into the hands of others, such as BCCI. To do this, they looked to see if names associated with charged-off loans appeared in other aspects of bank operations. Federal Reserve examiners reviewed in detail a sampling of the loan files for charged-off loans.

The Federal Reserve's special examination files contained a variety of printouts and other information related to charged-off loans, such as printouts of loans by borrower and by cost center. The files also contained a Federal Reserve-generated printout of loans reviewed listing the borrowing entity, the terms, and the loan's possible relationship to BCCI. In addition, the files contained a variety of other documentation regarding borrowers with charged-off loans, such as a list of their known related entities. The Federal Reserve did not find anything beyond normal banking practices in this part of its special examination.

---

**Overdrafts**

An overdraft is an amount by which a check exceeds the available balance in a checking account. In certain cases, a bank's payment of an overdraft can be considered a loan, treatable as an extension of credit. This, too, is a potential area of abuse. First American's customer information files indicate whether any individual or entity whose name appears in the files has ever had an overdraft. Federal Reserve examiners were therefore able to use the files to determine whether or not any of the individuals or entities on their list of BCCI-related names had overdrafts at First American by reviewing the customer information files for those BCCI-related names that appeared in the files. None of the individuals or entities on the Federal Reserve's list of BCCI-related names had an overdraft at First American.

In addition, Federal Reserve examiners reviewed a sample of overdrafts over \$500. Although there are generally thousands of overdrafts of \$500 or more each day at banks the size of the First American banks, examiners did not use statistical methods to take random samples. Instead, they tried to target selected days on which there were "special" events. For example, they selected days on which there were capital infusions into the bank holding company for several reasons. One was that if an investor infused capital and had an overdraft on the same day, the net effect would be that no money entered the bank, and some may have left. Under another possible scenario, a related entity might have overdrafts and charged-off

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

loans during the same time period, also indicating a possible flow of funds out of the bank.

Overdrafts were reviewed for May 16, July 10, July 22, and September 30, 1989; February 16, August 17, December 4, and December 15, 1990; and February 13, February 20, and April 2, 1991.

The examiners checked the names of individuals or entities who had overdrafts over \$500 on the selected dates against their list of 5,000 names associated with charged-off loans. Charged-off loans and overdrafts by the same individual could indicate an abuse of the bank and Federal Reserve examiners wanted to look for anyone who might be abusing the bank, whether or not the name of the abuser appeared on its list of BCCI-related names. The examiners reasoned that an abuser, not currently known to be BCCI-related, might later be found to be so.

There were limitations on the extent to which the Federal Reserve was able to review the transactions historically. Banks are not required to maintain records for more than a few years for some types of transactions. Banks are required to keep overdraft reports for only 2 years.

None of the individuals or entities on the Federal Reserve's list of names associated with charged-off loans had overdrafts on the days reviewed. This sampling approach was quite limited, however, and we believe that the examiners could not be confident they had identified all abuses involving overdrafts.

---

**Official Checks Over  
\$50,000**

Federal Reserve officials reviewed official checks over \$50,000 issued on the same dates that it had reviewed overdraft reports. These were expense checks, certified checks, and cashier's checks. The examiners sampled such checks because of their very high volume. Examiners looked for checks made out to BCCI or entities or individuals associated with BCCI. The special examination files contained little material from this part of the special examination but did indicate that the work was done and that nothing unusual was found in this part of the special examination.

---

**Paid-Off Loans Over  
\$1 Million**

The Federal Reserve reviewed all paid-off loans over \$1 million for a 6-month period beginning in September 1990. Examiners reasoned that individuals or insiders, such as bank officers, involved in inappropriate business practices might pay off their loans from First American banks,

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

anticipating that the additional publicity the banks were receiving would result in increased attention from federal banking agencies.

The special examination files contained lists of individuals who had paid off their loans during the period reviewed that were matched against the Federal Reserve's list of BCCI-related names. In addition, the files contained a summary memo indicating that the Federal Reserve traced the repayment source of about half of the loans to see if the source of repayment was BCCI. None of the paid-off loans were to names on the Federal Reserve's list of BCCI-related names, and BCCI was not identified as the source of repayment for any of the loans.

---

**Insider Loans**

The Federal Reserve reviewed all loans to insiders made over the last 5 years before June 1991. The special examination files contained printouts of the loans and indicated that the numbers and dollar amounts of such loans were high. However, the terms of the loans were not unusual, and loans with similar terms would have been available to other bank customers at the times that these loans were made. According to Federal Reserve officials, in all respects the loans were consistent with legal requirements relevant to insider lending.

---

**Loans Secured by  
Certificates of Deposit**

The Federal Reserve reviewed a list of all loans secured by certificates of deposit as of February 28, 1991, and the loan files for all such loans of \$100,000 and over. Examiners were looking to see if names of borrowers in this category appeared on other loans, such as charged-off loans. Such a finding could indicate money-laundering activity. The special examination files contained lists of loans secured by certificates of deposit, indicating that the work was done. The examiners detected no evidence of money laundering or other unusual activity.

---

**Commercial and  
Development Loans**

Examiners reviewed a listing of all commercial and development loans outstanding as of February 28, 1991, looking for matches with their list of 200 BCCI-related names or other unusual features of the loans, such as lower-than-market interest rates or generous repayment terms. Federal Reserve examiners reasoned that it was not necessary to review all such loans because (1) other regulators equipped with the Federal Reserve's list of BCCI-related names were examining the banks; (2) the Federal Reserve was looking at all charged-off loans over \$50,000 for the last 8 years and all loans over \$1 million paid off between September 1, 1990, and

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

February 28, 1991; and (3) the Federal Reserve had already matched the list of BCCI-related names against First American's customer information file. They therefore took a judgmental sample of loans for closer review and pulled the credit files and examined the loan terms and related interests. The special examination files contained printouts of commercial and development loans for the First American banks and indicated that the examiners found nothing beyond normal banking practices.

---

**Letters of Credit on Real  
Estate**

A letter of credit on real estate generally is a performance bond in which the bank guarantees the timely and satisfactory completion of a construction project, for the benefit of a third-party construction lender. This practice has become fairly common among banks in recent years. It replaced the use of casualty insurers, who had traditionally provided this type of surety.

The Federal Reserve examiners' review was limited, they said, to a sample of letters of credit on real estate because the volume of such letters was very high. All such outstanding letters of credit in excess of \$2.5 million were reviewed, and completed transactions in excess of that amount were reviewed on a random basis. They reviewed selected credit files looking for letters issued for the benefit of BCCI-related entities but found nothing beyond normal banking practices.

---

**Loan Participations**

A loan participation is the sharing of a loan by a group of banks that join together to make a loan, often one that is too large for any one bank to handle. Loan participations are arranged through correspondent banking networks in which smaller banks buy or sell a portion of an overall financing package. Such arrangements are a convenient way for smaller banks to book loans that would otherwise exceed their legal lending limits. By selling most of the financing to a correspondent bank, the originating bank earns fee income from servicing the loan (i.e., collecting payments of principal and interest) and is able to retain other banking relationships, such as checking accounts.

The Federal Reserve believed that this area represented considerable possibility for abuse because of the potential relationships among banks involved. Therefore, it reviewed all loan participations bought or sold from 1986 to April 1991 by First American, New York, and the First American, Metro, banks and from March 1987 to May 1991 for First American, Georgia. The examiners noted no loan participations with BCCI. The files

indicated that the work was done and that examiners found nothing beyond normal banking practices.

---

---

## Deposits

---

### BCCI Deposit Activity

The Federal Reserve reviewed BCCI deposit activity at the banks, looking for unusual behavior or a connection to other transactions in the banks. Most of this review occurred at the First American bank in New York because almost all of BCCI's First American deposits were with the New York bank. Federal Reserve examiners asked First American in New York for a summary of BCCI's account activity. The information provided by First American, New York, dated February 1991, appeared in the special examination files. Finding the data to be generally reliable, the Federal Reserve concluded that BCCI's deposit activity at the New York bank constituted normal deposit activity.

### Large Depositors and High-Activity Accounts

Federal Reserve examiners reviewed certificates of deposit and demand deposit accounts of \$100,000 and over as of one date—January 31, 1991—for the First American, Metro, banks and First American, New York. The same types of accounts were reviewed at First American, Georgia, as of the end of January, February, March, and April, 1991. The special examination files contained printouts of such accounts for each of the subsidiary banks. Examiners did not find any BCCI-related names or activities associated with the accounts, nor did they find anything beyond normal deposit activity.

### Checking Account Activity of Top Officials

Federal Reserve examiners reviewed the checking account activity of all senior-level officers at First American, Metro, and First American, New York. This review included the officers of the holding companies and subsidiary banks. Federal Reserve officials stated that this part of their review has not shown anything beyond normal checking activity. However, this work was not fully documented in the special examination files.

At First American, Georgia, the examiners reviewed the checking account activity of several key officers, directors, and others, including one BCCI-related business entity. They reviewed account activity as far back as

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

1982, where appropriate. Examiners found nothing beyond normal checking activity except in one instance, which they are continuing to investigate.

---

**Deposit Outflows**

The Federal Reserve reviewed all withdrawals and closed accounts of over \$1 million between December 1990 and April 1991. Examiners advised us that this review included withdrawals from demand deposit accounts and certificates of deposit. Its purpose was to see which individuals or entities might have been withdrawing money because of the growing publicity surrounding BCCI and the banks; large withdrawals could indicate an attempt to cover up a major activity. The special examination files contained printouts of large withdrawals and account closures that indicate the work was done. Federal Reserve examiners stated that they found nothing beyond normal banking activity.

---

**Cash**

---

**Bank Secrecy Act  
Compliance**

The Federal Reserve assessed First American's compliance with the Bank Secrecy Act by

- reviewing Bank Secrecy Act compliance examinations dating back to 1985 by the primary federal regulators of the First American bank subsidiaries (OCC and FDIC);
- reviewing the workpapers from First American's internal audits of Bank Secrecy Act compliance over approximately the same period;
- reviewing Bank Secrecy Act compliance for selected periods, choosing periods to review based on any leads they may have gained from the past examination and audit reports they reviewed;
- evaluating First American's Bank Secrecy Act policies, which have been in effect since mid-1990; and
- interviewing First American officials involved in Bank Secrecy Act compliance.

During the special examination, Federal Reserve examiners also field-tested on First American their new Bank Secrecy Act compliance audit program. The program was developed and carried out by some of the top Federal Reserve staff in Bank Secrecy Act compliance and was done at the First American banks as of May 1991.



---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

The special examination files contained a large quantity of materials from the Bank Secrecy Act special examination, including First American internal audit workpapers, copies of First American Bank Secrecy Act compliance policies, and notes from interviews of First American officials. The Federal Reserve found that Bank Secrecy Act compliance at the First American Banks was generally adequate.

---

**Wire Transfer Activity**

Federal Reserve examiners reviewed wire transfer activity to identify any transfers involving money-laundering countries, BCCI, or shareholders of BCCI and/or First American.<sup>9</sup> They only reviewed a sample of wire transfers because the volume was so high. When determining what periods to cover, examiners attempted to select those that coincided with key events, such as capital infusions to First American from rights offerings<sup>10</sup> or First American's acquisition of the National Bank of Georgia. The First American, Metro, banks probably did as many as 1,000 wire transfers in a given day. First American, New York, handled as many as 2,000 a day. This approach seems reasonable. Federal Reserve officials estimated that they expended over 2 staff years in their review of wire transfers.

Examiners were looking for trends of activity, not isolated events, and told us that they felt confident any trends of a particular activity would not escape the scrutiny of their review even though they only took a sampling. The review of large wire transfers, which was documented in the files, revealed nothing beyond normal banking practices.

---

**Cash Shipments**

The Federal Reserve reviewed and analyzed coin and currency shipments to and from each of the First American banks in order to identify anything unusual, such as a very large amount of cash received from or shipped to a particular bank. Examiners originally intended to review shipments to and from each First American branch but found that currency shipments were only reported in the aggregate for each bank, not for each branch.

Federal Reserve examiners therefore reviewed all shipments to the banks during 1989, 1990, and the first half of 1991. They stated that this review,

---

<sup>9</sup>Examiners selected the last 6 months of 1986 and 1987, and May 1990 to April 1991 to review. Because the daily number of wire transfers varied by location, transfers over \$100,000 were reviewed at First American, Metro, and First American, New York. The cut-off was raised to \$500,000 for May 1990-April 1991 at First American, New York, because the volume of wire transfers was so high at that bank. At First American, Georgia, the dollar cut-off was \$10,000 because the volume was lower.

<sup>10</sup>A rights offering is an offer by a corporation to sell a new offering of securities, usually common stock, to its shareholders proportionate to their holdings.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

which is documented in the special examination files, did not reveal an unusual total volume of currency shipped to or from any one of the banks. However, because shipments to branches were not recorded, they were unable to review shipments at that level. Federal Reserve officials told us that they saw no overall excessive or unusual cash shipments at the bank level and, because of the Federal Reserve's extensive Bank Secrecy Act-based review of cash operations, do not believe problems exist in this area.

---

## Personnel

---

### Current and Former Employees

The Federal Reserve reviewed a list of current and former employees of the First American banks for the 5 years preceding April 1991. The purpose of this review was to identify any former BCCI employees, any employees referred to First American banks by BCCI, individuals associated with BCCI, and any patterns in the employment of such employees based on referrals made by BCCI. Examiners noted that a few former BCCI employees had worked at the banks, but they found no adverse employment trends. The files for this part of the special examination contained printouts of all employees of the banks for the last 5 years and summary memos indicating that the work was done.

---

### Review of Profiles and Personnel Files of Selected Employees

Federal Reserve examiners reviewed profiles and personnel files of former and present top officials of the First American banks and holding companies. In addition, they reviewed the personnel files of a few key employees who were known to have formerly worked for BCCI at First American banks in New York and Georgia. The special examination files contained some but not all of the personnel files reviewed by the Federal Reserve.

---

## Noninterest Expenses

---

### Travel and Entertainment Expenses

Examiners reviewed First American employees' travel and entertainment expenses of over \$500 for 1989, 1990, and the first half of 1991. When reviewing travel expenses, they looked for contact with BCCI and links between individuals' travel and other transactions. Banks are not required

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

to keep records of such expenses for more than 5 years. Travel and entertainment records indicated that some employees were in frequent contact with BCCI and individuals closely associated with BCCI. Where this was the case, examiners reviewed travel and expense records from as early as 1986. At the First American Bank of Georgia, examiners reviewed travel and entertainment expenses from before First American's acquisition, sometimes as early as 1980. As of May 1992, the Federal Reserve had not identified any abuses incurred by the banks during its review of travel and expense records.

---

**Professional and  
Consulting Expenses**

Federal Reserve examiners reviewed First American's legal and other professional and consulting expenses of \$100,000 or more incurred since BCCI acquired control of the banks in 1982. They reviewed board meeting minutes for the holding company and the banks and matched the minutes to the lists of First American's expenses to see if expenses were authorized by the board. Although the cut-off for this review was \$100,000, examiners believe that they reviewed almost all of the expenses. This work is partially documented in the files. Generally, expenses were determined to be proper. However, certain transactions are still being reviewed in connection with the Federal Reserve's ongoing investigation.

---

**Miscellaneous  
Disbursements**

Examiners reviewed a variety of expenses, including disbursements to major vendors, contributions, and major income/expense activity. This work, which was not fully documented, revealed nothing unusual, according to the summary analyses.

---

**Other Aspects of the  
Special Examination**

Federal Reserve examiners examined other aspects of First American operations with the results as noted in the following summaries:

- **Off-balance-sheet activity.** Examiners reviewed a variety of activities, including letters of credit, interest rate swaps,<sup>11</sup> loan commitments, and foreign exchange transactions, as of February 28, 1991. They focused on the largest of these amounts and any that were BCCI related. The dollar volume of these types of transactions was higher for First American, New York, because that bank has a large amount of export-related business. No significant findings emerged from this review.
- **Criminal referrals.** Examiners reviewed all criminal referrals filed by First American banks since 1986. Before that, there were no criminal referral

---

<sup>11</sup>Interest rate swaps are transactions used to hedge against or displace interest rate risks.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

---

forms. They also reviewed the procedures for filing referrals. There were no apparent BCCI ties to any of the parties on which the banks filed criminal referrals.

- Customer complaints. Examiners reviewed customer complaint files for 1989, 1990, and 1991. Nothing related to BCCI was found.
- Loan agreements at the bank holding company. The Federal Reserve reviewed holding company borrowing on the part of First American Bankshares and of holding companies above this organizational unit, which included First American Corporation, Credit and Commerce American Investment, B.V., and the ultimate parent holding company—Credit and Commerce American Holdings, N.V. The Federal Reserve's review included an analysis of loans to and from holding company investors since 1982, a review of loan agreements for restrictive covenants or other unusual terms, capital contributions, and dividend payments. Neither the ultimate parent holding company nor the subsidiary holding companies reviewed had public debt. However, the parent holding company had entered into loan agreements with its investors of record, often downstreaming the loan proceeds as capital infusions to its subsidiaries. Nothing abusive to First American was found.
- Major balance sheet changes since 1984. The review of balance sheet changes was primarily intended to identify important changes, actual or planned. The Federal Reserve reviewed quarterly balance sheet information beginning with year-end 1984. Although significant loan growth for one bank was noted during 1985 and 1986, examiners verified that the loan growth was projected and did not merit further attention. Otherwise, changes in areas such as real estate lending were similar to those occurring in banks like First American, and nothing unusual was found in this review.
- Litigation involving First American banks. The Federal Reserve reviewed all litigation involving the banks as either plaintiff or defendant, noting the names of the parties and their counsel, and the facts of the case. No connections with BCCI were found.
- Volume and type of investment securities. The Federal Reserve reviewed a printout of the banks' investment portfolio that included the type of security, rate, maturity, yield, and original cost. They reconciled this printout back to the balance sheet. The volume and types of investments revealed nothing out of the range of normal investment activity for banks. However, the Federal Reserve is currently continuing its review of First

---

**Appendix III**  
**The Federal Reserve Board's Special**  
**Examination to Determine If BCCI**  
**Influenced the Operations of First American**  
**Banks**

---

American's investment strategies as well as the sources and uses of investment funds.<sup>12</sup>

- **Leases and major purchases of fixed assets.** The Federal Reserve reviewed lists of the banks' owned and leased properties that showed the office and lessor, original and maturity dates, and lease rates. During May 1992 congressional hearings, a Federal Reserve official testified that the Federal Reserve found one outstanding credit to BCCI related to a letter of credit issued by First American in connection with a small lease payment, which came due after many of BCCI's activities were seized by regulators on July 5, 1991.<sup>13</sup> The Federal Reserve found no evidence that this transaction was undertaken other than in the ordinary course of business. However, the Federal Reserve has alleged that BCCI participated in the purchase of bank branches by the First American Bank of New York, and is continuing to examine this aspect of First American's operations.

---

<sup>12</sup>In July 1992 the Federal Reserve commenced a formal civil enforcement proceeding against Clark M. Clifford and Robert A. Altman. During investigation activities that the Federal Reserve did separately from its special examination, the Federal Reserve identified several transactions in which BCCI worked through a nominee to provide funds to Credit and Commerce American Holdings. One transaction involved a loan for \$20 million, purportedly from shareholder Kamal Adham. The Federal Reserve alleges that BCCI was the source of funds for the loan and that the loan terms were amended to increase the interest rate applicable to the loan without consideration provided to Credit and Commerce American Holdings in exchange for the rate increase. The Federal Reserve alleges that the increase in the interest rate on the \$20 million loan resulted in a loss to Credit and Commerce American Holdings of over \$600,000 between January 1984 and January 1987. The Federal Reserve also alleges that BCCI used Adham as a nominee to provide another \$21 million to Credit and Commerce American Holdings in December 1990, through a transaction in which BCCI provided full funding to Adham related to his purchase of debentures issued by Credit and Commerce American Holdings.

The Federal Reserve alleges that in 1986, Clifford and Altman decided to conduct a "rights offering" (an opportunity to purchase additional shares) to Credit and Commerce American Holdings shareholders, which would raise about \$150 million. The Federal Reserve stated that although Credit and Commerce American Holdings had no immediate need for that sum of funds, BCCI, in contrast, had a serious need for deposits to resolve liquidity problems and placate its auditors. The Federal Reserve alleges that Altman caused Credit and Commerce American Holdings to deposit the \$150 million in proceeds realized from the rights offering with BCCI Overseas. The Federal Reserve alleges that at the time the deposit was made, no interest rate for the deposit was negotiated, no analysis was ever done of the creditworthiness of BCCI Overseas in connection with the deposit, and the funds were placed in an uninsured demand deposit account.

The Federal Reserve alleges that the funds generated in the rights offering remained at BCCI or its affiliate, International Credit and Investment Company (Overseas), between July 1986 and December 1986, and that during that time BCCI used the funds for its own purposes and maintained total control over the rights offering funds. The Federal Reserve alleges that in December 1986, BCCI apparently transferred the funds plus accrued interest to a Credit and Commerce American Holdings account at the First American Bank of New York. Credit and Commerce American Holdings needed the funds for corporate purposes. However, the Federal Reserve alleges that BCCI, through a series of transactions, had effective control over some portion of the rights offering funds until July 1987. These transactions included investments in certificates of deposit at BCCI Overseas or International Credit and Investment Company (Overseas) made by Credit and Commerce American Holdings or First American.

<sup>13</sup>Testimony of J. Virgil Mattingly, Jr., General Counsel, Board of Governors of the Federal Reserve System, before the Senate Committee on Foreign Relations, May 14, 1992.

---

**Appendix III  
The Federal Reserve Board's Special  
Examination to Determine If BCCI  
Influenced the Operations of First American  
Banks**

- 
- **Large dormant assets.** Large dormant assets are unusual items, such as other real estate owned<sup>14</sup> not carried as such, hidden joint ventures, or other miscellaneous items carried in a "garbage account" that banks sometimes maintain. The Federal Reserve was looking for anything carried in such an account that might be related to BCCI, but it found nothing.
  - **Other real estate owned.** The Federal Reserve reviewed all sales of the bank's other real estate owned for the past 5 years, as of the first half of 1991. The files showed no connection with BCCI.

In many but not all of these areas, the special examination files indicated that the work had been done and that the sampling was appropriate.

---

## **Adequacy of the Federal Reserve's Special Examination**

We believe that the Federal Reserve's special examination into First American's operations has been generally appropriate and its conclusions reasonable. We saw evidence that the Federal Reserve took appropriate steps to ensure that First American-generated data were reliable.

Any examination, whether normal or expanded, could not review all of the hundreds of millions of transactions that annually occur in a banking organization the size of First American. The volume of First American's records deterred the Federal Reserve from reviewing all transactions and made it necessary in some instances for examiners to reach findings based on a review of judgmental samples. Although the approach seemed reasonable, it is not certain whether or not a review based on a statistically valid random sampling of First American's records would alter the Federal Reserve's current findings.

Although the Federal Reserve's special examination of the impact on First American operations is substantially complete, it has not declared the special examination finished. The Federal Reserve plans to review any new information that it gains access to on BCCI relationships with U.S. banks.

---

<sup>14</sup>"Other real estate owned" is real estate acquired by a lender through foreclosure in satisfaction of a debt and held by the lender until sold.

# FDIC's Examination of Independence Bank

The Federal Reserve Board, as the federal regulator of bank holding companies, assumed a leadership role in determining the extent to which BCCI exerted influence over U.S. depository institutions. (See app. III.) Shortly after beginning its investigation in January 1991, it discovered evidence indicating that BCCI had worked through a nominee to improperly and illegally acquire control of Independence Bank, a state-chartered bank in Encino, California.<sup>1</sup> It had not previously been known to U.S. banking agencies that Independence Bank was controlled by a holding company. The Federal Reserve began investigating aspects of BCCI's role as the holding company of Independence. FDIC, as the federal regulator of Independence Bank, assumed responsibility for determining the extent to which BCCI exerted influence over the bank.

This appendix summarizes and assesses FDIC's efforts to determine the extent to which BCCI may have adversely influenced Independence Bank to the advantage of BCCI-related entities.

## Objectives, Scope, and Methodology

In order to assess FDIC's special examination of Independence Bank, we reviewed the regulatory records maintained at FDIC headquarters, Washington, D.C., and at FDIC's San Francisco Regional Office and interviewed officials at these locations.

FDIC undertook three separate efforts—in February/March 1991, March 1991, and August 1991—to review Independence Bank records and to determine whether BCCI adversely influenced that bank to the advantage of BCCI-related entities. FDIC files contained limited documentation on the scope of the first two special examinations since the regional office provided verbal guidance to the examiner. The examiner also did not fully document all work done during the first two special examinations, and instead summarized his special examination results in a memorandum submitted to FDIC regional management. Therefore, we had no basis for independently verifying either the scope and methodology of planned work or the work completed during FDIC's first two special examination activities.

For the special examination started in August 1991, FDIC regional staff developed a 13-point agenda. We discussed the agenda and special examination results and supporting documentation with FDIC headquarters and regional staff, including the examiner responsible for doing the special

<sup>1</sup>Like the state-chartered First American banks, Independence Bank was not a member of the Federal Reserve System. FDIC was therefore its federal regulator.

---

examination. The examiner advised us that all work completed during this special examination was not documented and that such documentation is essentially limited to selected bank records used to support the findings reported to FDIC regional management. Therefore, we had no basis to independently verify the adequacy of work done in completing the August 1991 special examination activities.

---

## Background

FDIC records show that in October 1985 Ghaith Pharaon filed a Change in Bank Control Notice with FDIC and, after receiving no objection from that agency, assumed full ownership and control of Independence Bank. Pharaon, a 15-percent owner of BCCI at the time, acquired control of Independence for \$23 million in a transaction in which BCCI acted as Pharaon's financial adviser and received a fee equal to 1 percent of the acquisition cost plus reimbursement of costs. FDIC officials told us that Mr. Pharaon's acquisition of Independence, as of other U.S. banks, was at the time viewed as a positive development because additional capital was being provided. They also advised us that they viewed BCCI's history, up until the late 1980s, as generally favorable.

Between 1987 and 1990, Mr. Pharaon made cash capital contributions to the bank totaling about \$25 million. In June 1990, a firm associated with Mr. Pharaon purchased certain problem assets from the bank for about \$20 million, eliminating the bank's exposure to losses on these assets. In April 1991, however, Independence Bank's board of directors notified FDIC that Mr. Pharaon contacted and advised the bank board that he would not make additional capital contributions to the bank.

The examination history shows that after Mr. Pharaon assumed control, the bank shifted from a static to a growth-oriented philosophy. It grew from \$239 million in assets in December 1985 to \$683 million in assets in September 1988—or about 186 percent. As of September 30, 1988, when FDIC and the California State banking supervisory agency concurrently did the first full-scope examinations of Independence Bank since Mr. Pharaon's assumption of ownership, they found that it had experienced deterioration in its capital position, quality of assets, and earnings.<sup>2</sup> The bank had relied heavily on volatile sources to fund asset growth. Most of the growth was concentrated in joint real estate ventures, which were permitted under California state law. Almost 20 percent of the bank's total

---

<sup>2</sup>The California agency conducted four examinations between October 1985, when Pharaon assumed control of Independence, and September 1988, when FDIC and the state did concurrent examinations of the bank. Each of the four state examinations found the bank's condition to be satisfactory. However, they were not full-scope examinations.



assets were classified<sup>3</sup> in September 1988; real estate loans and joint venture investments formed almost 90 percent of the bank's classified assets. The FDIC examination found that the bank had not corrected problems cited in previous, limited-scope state examinations completed after Pharaon assumed control of the bank.

The 1988 examination report noted that the bank's board and management appeared to be dominated by the chairman of the board and chief executive officer, Kemal Shoaib. It noted that Mr. Shoaib seemed to function as the alter ego of the bank's owner, Mr. Pharaon, and he appeared to be the driving force behind Independence Bank's rapid expansion into the joint real estate ventures. The report also noted that Mr. Shoaib was formerly associated with the London operation of BCCI.<sup>4</sup> Finally, the report also observed that it appeared that individuals and/or entities in London had some sort of undefined connection with several of the joint ventures, but it did not make a direct link between BCCI and the problem real estate ventures. It did recommend, however, that all transactions between Independence Bank and BCCI be carefully scrutinized in future examinations. It also recommended close scrutiny of joint venture disbursements, tracing of funds, and careful review of pay-offs and any related transactions between the joint ventures and the bank, with particular attention directed to extensions of credit to the London-based individuals or entities. However, the following FDIC examination report as of August 1989, started after the October 1988 indictment of BCCI on money-laundering charges, did not address fully the concerns identified in the September 1988 examination. FDIC officials, including the examiner responsible for the August 1989 examination, advised us that certain relationships between BCCI and Independence Bank were reviewed, particularly as a part of that examination's focus on reviewing Independence Bank's joint venture activities. They advised us that they did not take exception to activities involving BCCI and Independence Bank identified during the examination, and therefore they did not discuss them in the 1989 examination report. They further advised us that this is

---

<sup>3</sup>During examinations, loans are reviewed to identify those loans that need strengthening and careful management if they are to be collected. Such assets are evaluated and assigned a quality rating based on the degree of risk and the likelihood of repayment associated with the loans. Adversely classified loan assets are allocated on the basis of risk to three categories. These categories are (1) substandard, which are loans inadequately protected by the worth and paying capacity of the obligor or the collateral pledged, with the possibility that the bank will sustain some loss; (2) doubtful, which have the weaknesses inherent in assets classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable; and (3) loss, which are loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted although such assets may have some recovery or salvage value.

<sup>4</sup>The examiner noted that at the time the report was prepared, Mr. Pharaon reportedly had an 18-percent ownership interest in BCCI.

consistent with examination policies, which generally require examiners only to document and report on exceptions identified during an examination.

The 1988 examination resulted in a June 1989 memorandum of understanding between FDIC and the state agency jointly and the Independence Bank.<sup>5</sup> The memorandum of understanding required the bank to undertake several corrective actions, including

- increasing its capital level;
- reducing its level of classified assets;
- retaining management acceptable to FDIC and the state regulator;<sup>6</sup>
- stopping extensions of credit to any borrower having a loan or other extension of credit that had been charged off or classified, as of the 1988 examination; and
- implementing additional or revised written lending and collection policies to provide further effective guidance and control over the bank's lending function.

The bank took action to comply with certain provisions of the memorandum of understanding. For example, bank capital was increased: a contribution of \$10 million in new equity was made by the bank's owner of record, Mr. Pharaon. Mr. Shoaib left the bank, and a new board chairman/chief executive officer was appointed in June 1989. Additionally, the bank slowed its asset growth and stopped entering into joint venture agreements.

The bank, however, did not make satisfactory progress in meeting the conditions contained in the 1989 memorandum of understanding: bank

---

<sup>5</sup>The 1988 examination was based on the bank's financial data as of September 30, 1988. In January 1989, FDIC and state examiners met with senior bank officials to discuss the unsatisfactory conditions disclosed during the examination. Bank officials voiced general disagreement with the examination findings and requested a meeting with California state banking officials and FDIC regional officials to discuss and protest the examination findings. Bank officials did meet with these officials and had the opportunity to provide supplemental information to the regulators to address and clarify some of the issues raised in the examination report. In May 1989, officials from the California state banking supervisory agency and FDIC held a joint meeting with Independence Bank officials and their representatives to discuss a proposed stipulation to a cease and desist order requiring correction of the problems. However, the state agency, FDIC, and Independence Bank officials instead agreed to enter into a memorandum of understanding that specified the actions the bank needed to take to correct the problems. A memorandum of understanding is considered an informal enforcement action since it is not enforceable in the courts.

<sup>6</sup>Although the memorandum of understanding did not specifically call for the removal of board chairman/chief executive officer Mr. Shoaib, it did require, at a minimum, that bank management include a chief executive officer and a chief financial officer qualified to present the bank's financial condition in an accurate manner.

capital remained below minimum capital adequacy levels, and classified assets remained excessive and appeared to contain an inordinate amount of risk. As a result of the continuing problems found during an examination as of August 31, 1989, FDIC and the state regulator jointly entered into a second memorandum of understanding with Independence Bank in April 1990 that required the bank to continue taking corrective actions.

The FDIC examination report, dated as of August 24, 1990, found the bank to be in an unsatisfactory condition. The examination focused on the bank's operations, including its joint ventures in real estate activities. However, the 1990 examination report, like the 1989 examination report, did not address Independence Bank's transactions with BCCI, as had been recommended in the 1988 examination.

The August 1990 examination reported that adequate capital levels were not being maintained, liquidity at best was marginal, earnings were nonexistent, and asset classification had increased substantially. In June 1991, FDIC issued a cease and desist order requiring that Independence Bank take actions to correct problems identified during the August 1990 examination. These requirements included again increasing the bank's capital by at least \$10 million, improving management, eliminating all assets classified as losses, and reducing levels of assets classified as doubtful. On January 30, 1992, the bank was closed due to insolvency by the California State banking supervisory agency, which also named FDIC as receiver.<sup>7</sup>

FDIC, in its examination reports, did not record any efforts to determine whether an inappropriate link existed between BCCI and (1) Mr. Pharaon; (2) Independence Bank; or (3) Independence Bank directors, officers, managers, and other bank personnel, even though FDIC's 1988 examination report and other records provided indications that such inappropriate relationships might exist.

We did not evaluate and are not commenting on the effectiveness of FDIC's supervision of Independence Bank. However, FDIC's response to the financial problems and other problems at Independence Bank, which

---

<sup>7</sup>FDIC News Release, PR-13-92 (Jan. 30, 1992). When FDIC is appointed the receiver of a closed FDIC-insured bank, it is authorized to take action to cover the insured claims of the failed bank's depositors and satisfy the remaining claims. FDIC succeeds to all rights and privileges of the bank. It is authorized to place the bank in liquidation and proceed to realize upon its assets or resolve the troubled institution through other means, including the organization of a new institution, a merger, or a transfer of bank assets and liabilities. (Federal Deposit Insurance Act, § 11, 12 U.S.C. 1821.)

relied on seemingly weak and ineffective informal enforcement actions for a lengthy period of time, is not unusual.<sup>8</sup> The record shows that FDIC—starting in 1989—began on several occasions to initiate formal actions, primarily cease and desist orders, against the bank but did not complete these actions. Until June 1991, it relied on informal enforcement actions (i.e., the memoranda of understanding) to try to persuade the bank to correct problems identified during examinations.

### FDIC Special Examinations to Determine Whether BCCI Influenced Independence's Operations

FDIC first focused attention on the relationship between BCCI and Independence Bank after the Federal Reserve Board issued an order formalizing its investigation of BCCI and First American Bankshares in early January 1991. Shortly after beginning its investigation, the Federal Reserve uncovered evidence indicating that BCCI had acquired control of Independence Bank through a nominee shareholder. FDIC had been aware since Independence's 1985 change in control that Mr. Pharaon, the bank owner, and Mr. Shoalb, the board chairman/chief executive officer of Independence Bank, had current or former ties with BCCI. (See app. III.)

### FDIC's Initial Special Examinations

Over the 2 days from February 28 through March 1, 1991, an FDIC examiner visited Independence Bank to determine what relationship, if any, the bank had with First American, BCCI, and certain individuals and entities related to these institutions. The examiner developed a list of names from various sources, including BCCI ownership records, Federal Reserve documents, and press reports. There was no written plan laying out the scope of this work.

<sup>8</sup>See Bank Supervision: Prompt and Forceful Regulatory Actions Needed (GAO/GGD-91-69, Apr. 15, 1991). In this report we said that FDIC and the other banking agencies had wide discretion in choosing among informal and formal enforcement actions of varying severity to address unsafe or unsound banking practices or such conditions found in a banking institution. Regulators could choose to obtain and document bank management agreement to needed corrections through commitment letters or memoranda of understanding. These were considered informal actions because they were not legally enforceable in court if the agreed-on corrections were not subsequently completed. Stronger, formal actions available included formal written agreements; orders to cease and desist from unsafe practices; orders for removal, prohibition, and suspension of individuals from bank operations; and civil money penalties.

Additionally, we found that the regulators shared a common philosophy of trying to work informally with banks to promote cooperation with those having difficulties. The combination of the wide discretion in choosing enforcement actions and the cooperative philosophy often did not resolve the problems that regulators identified in the banks we reviewed. As a result, the regulatory process resulted in neither improved bank capital levels nor correction of the underlying causes of bank capital problems in these banks. The Federal Deposit Insurance Corporation Improvement Act of 1991 (Act of December 19, 1991, P.L. 102-242, 105 Stat. 2236) acted to reduce this wide discretion by providing for mandatory actions that regulators would take when certain conditions existed.

The examiner stated in his summary report that he interviewed bank officials—the bank president, the legal counsel, and the chief credit officer—and was told they had no recollections of any Independence Bank involvement with any of the individuals or entities on the examiner's list, other than what were believed to be routine transactions with BCCI entities. The examiner also said he accessed and searched the bank's computerized customer files, which included information such as deposit accounts and loan transactions, and did not find any evidence of relationships between the bank and names on the list. His review of the bank's correspondent account relationships showed that Independence had an account with one First American Bank during the period February 1987 through September 1990. In his report he stated that bank records showed the account was to be used to facilitate federal funds transactions but that account statements back to January 1988 showed no transactions going through the account.

The examiner also reported to regional management on the activities of Mr. Shoaib in his role as chief executive officer of Independence Bank from January 1986 through January 1989, noting that Mr. Shoaib reportedly had been a very high-ranking officer with BCCI before joining Independence. The examiner attributed the then-poor condition of the bank to Mr. Shoaib's stewardship, most notably to the joint real estate ventures in which the bank had become involved. BCCI had provided construction financing for several of these joint ventures. In one case, Independence had provided financing related to land acquisition and later had subordinated its first loan position to BCCI's construction loan. The examiner did not record concerns with the other joint ventures involving BCCI.

The examiner also noted in the report that Independence had entered into a large number of joint ventures with a firm that was owned by two individuals that eventually resulted in \$9 million in losses to the bank and affiliates. Poor controls over the joint ventures, he said, prevented him from determining whether the bank's losses resulted from wrongdoing on the part of this firm. The examiner further noted that Mr. Shoaib left the bank in 1989 reportedly to work with the firm, but the examiner did not report any relationship between the firm and BCCI.

Around mid-March 1991, a few weeks after his initial visit to Independence, the examiner revisited the bank to conduct a second review using an expanded list of names obtained from the Federal Reserve. The examiner reported to regional management that the review

confirmed the Independence Bank relationships with BCCI previously identified but disclosed little new information. (See app. III.)

---

## FDIC's Broadened Special Examinations

The condition of Independence Bank continued to deteriorate, and it became more apparent that the bank was likely to fail. In August 1991, FDIC placed an examiner in the bank in order to establish a continuous on-site presence at the bank. The condition of the bank had deteriorated to the point that FDIC had begun to develop a bid package to provide information to potential acquirers on its true condition. As part of the bid package preparation, FDIC normally reviews bank records in considerable detail to ascertain the true condition and value of an institution.

During late August through September 1991, the FDIC examiner placed on-site at Independence also reviewed bank documents and interviewed bank officials to search for relationships and tie-ins between Independence and BCCI and BCCI-related entities and individuals. While reviewing Independence Bank records, looking for relationships with BCCI and related entities, the examiner continued to monitor the bank's condition in order to prepare for its possible closure. The examiner advised us that monitoring the bank's condition was his primary responsibility.

In order to review the bank's operations, the examiner and FDIC regional management developed a 13-point agenda noting areas to cover. The 13-point agenda is different from and less extensive than the special examination plan developed by the Federal Reserve for its special examination of First American. For example, it did not cover travel expenses, legal expenses, or the personnel and account files of top officials. While some areas of review appear on both lists, they were not reviewed in the same depth. FDIC officials advised us that they had not developed such a special examination plan previously because the agency had directed its main focus on keeping Independence a viable institution. (See app. III.)

FDIC's 13-point agenda set a range of special examination activities that appeared sufficiently broad to identify major areas in which ties between Independence Bank and BCCI-related entities or individuals might have existed. Its special examination was, however, narrower, had significantly lower staffing, and was done in a shorter time frame than the Federal Reserve special examination of First American. These aspects increased

the likelihood that transactions or other operations involving BCCI could have escaped detection.

FDIC's agenda included the following areas of review:

- deposit relationships;
- stock ownership;
- real estate joint ventures—involvement as either a third party lender, a guarantor, or a direct or indirect partner;
- direct or indirect extensions of credit to or from the bank;
- investments in or with BCCI-related entities or individuals;
- management ties, past or present, with BCCI-related entities or individuals;
- leases on fixed or other assets involving BCCI-related entities or individuals;
- services rendered to or by BCCI-related entities or individuals;
- securities purchased from and sold to or through BCCI-related entities or individuals;
- lender of record transactions involving BCCI-related entities or individuals;
- review of filed U.S. Attorney referrals for any other transactions;
- asset purchases from or by BCCI-related entities or individuals, including a firm's purchase of joint venture interests in October 1990,<sup>9</sup> and a possible similar transaction before that time; and
- any other transaction, relationship, or tie-in that became apparent during the process.

Initially, the examiner used the agenda points to look for relationships involving three BCCI entities: BCCI S.A., BCCI Overseas, and BCCI Holdings. The search was later broadened to include BCCI principals, directors, officers, and Pharaon and their various affiliates and associates.

The FDIC examiner told us that he conducted this special examination by interviewing 20 senior bank officials and reviewing customer records maintained on the bank's computerized data system and other bank records. The examiner believed that Independence Bank officials he interviewed were honest and forthcoming with him because they wished to disassociate themselves from BCCI. Some of the officials the examiner interviewed had been with the bank before its acquisition by Mr. Pharaon. Because Independence had computerized data files, the examiner told us he was able to review many of the bank's records in a short time. The examiner said that the computerized files facilitated investigating areas with a large volume of records, such as deposit relationships. The

---

<sup>9</sup>This firm was a Pharaon-related company that acquired several joint ventures from Independence.

examiner also said he searched the computerized files and found no BCCI deposits.

Through the use of Independence Bank-generated management reports the examiner reviewed a variety of transactions back to 1985, when Mr. Pharaon purchased Independence Bank. For example, the examiner told us that he reviewed wire transfers, charged-off loans, and deposits back to 1985 through the use of such management reports. However, this review consisted of analyzing the reports themselves and going no further; unlike Federal Reserve officials, he did not review the credit files for a sample of charged-off loans.

In those areas that the examiner reviewed in more detail, such as management ties, investments, lender of record transactions, and stock ownership, the examiner relied heavily on his discussions with Independence Bank officials to provide him with leads on areas he should review.

Reviewing Independence's joint ventures occupied the majority of the examiner's time during his review. Independence Bank involvement in the joint ventures had been a matter of supervisory concern to FDIC as early as 1988. Several other categories included in the 13-point agenda, such as management ties, investment in or with BCCI, services rendered to or by BCCI, asset purchases, and direct or indirect extensions of credit, were related to this review of joint ventures.

We reviewed the examiner's memos summarizing the special examination findings based on the August 1991 agenda. The examiner noted several transactions or relationships between Independence and BCCI and/or BCCI-related individuals or entities, including the following:

- correspondence reaffirming the nominee arrangement between Mr. Pharaon, the control owner of Independence, and BCCI that allowed BCCI to hide from regulators its ownership of Independence;<sup>10</sup>
- capital infusions originating from or approved by BCCI;
- BCCI-provided financing to individuals involved in joint venture real estate investments with Independence Bank, among them several joint ventures that Independence sold in June and October 1990 to Pharaon-related entities;
- former BCCI employees hired as senior officials at Independence Bank; and

---

<sup>10</sup>In July 1991, the Federal Reserve announced that it had evidence showing that BCCI had entered into a nominee arrangement with Mr. Pharaon to acquire control of Independence.



- relationships between Independence and BCCI- and/or Pharaon-related entities or associates, among them deposit relationships and direct or indirect extensions of credit to BCCI-related individuals involved in joint real estate investments with Independence.

FDIC officials responsible for the special examination concluded that contrary to expectations, there were relatively few relationships between Independence Bank and BCCI and that identified transactions had not resulted in net losses to Independence. As of October 1991, Independence's known exposure to then-outstanding tie-ins was limited to \$2.4 million resulting from the bank's subordination of a land acquisition loan to a BCCI construction loan, discussed earlier. Except for this potential loss to Independence, FDIC's special examinations did not report any adverse impact on Independence to the benefit of BCCI-related entities.

FDIC kept an examiner in place at the bank through January 1992, when the bank failed. The examiner continued to monitor the operations of Independence both to assess the condition of the bank as well as to identify any inappropriate transactions between Independence and BCCI. The examiner did not fully document his monitoring activities but told us there were no inappropriate transactions between Independence and BCCI during that period.

## FDIC Documentation

The FDIC examiner did not fully document the steps completed during the September 1991 review or the full results of this work. He advised us that he did not keep workpapers for all his work but rather incorporated the results in reports to FDIC regional managers, to which he attached certain bank documents supporting the findings. We therefore could not independently assess or verify the special examination methods used, the number of transactions selected for review, or the actual implementation of the work.

Officials in FDIC's Washington headquarters advised us that the examiner's approach to documenting work completed is not unusual in normal examination processes. During a bank examination, they said, examiners typically review and evaluate a large volume of data on an institution's operations and transactions to assess its condition but do not always include a detailed discussion of the work performed to assess an institution.

Independence continued to experience operating losses and on January 30, 1992, was seized and closed by its charterer, the California State banking supervisory agency. FDIC was named receiver. FDIC announced that day that it had approved the transfer of all deposit accounts to First Interstate Bank of California.<sup>11</sup>

As of April 1992, FDIC had not determined whether Independence Bank realized losses due to transactions involving BCCI. However, FDIC officials told us they have expanded the standard post-closure activities to include additional investigation of Independence's relationship with BCCI and BCCI-related entities, focusing on source documents at the bank. The investigation is in its preliminary stages.

---

<sup>11</sup>FDIC news release, PR-13-92 (Jan. 30, 1992), stated that the FDIC board acted to fully protect depositors of Independence Bank, including those with accounts exceeding the insurance limit, because the agency expects to be reimbursed for the full cost of this resolution out of a special fund established from BCCI assets in the United States. (See app. I for a description of this fund.)

# Major Contributors to This Report

---

General Government  
Division, Washington,  
D.C.

Allan I. Mendelowitz, Director, International Trade, Energy, and Finance  
Issues  
Alison L. Kern, Assistant Director, Financial Institutions and Markets  
Issues  
James M. McDermott, Advisor  
Nina S. Pfeiffer, Advisor  
Edward S. Wroblewski, Assignment Manager  
Thomas L. Conahan, Evaluator  
Nancy M. Eibeck, Evaluator

---

Accounting and  
Financial  
Management Division,  
Washington, D.C.

Carl Francis, Assistant Director  
Leslie A. Smith, Senior Accountant

---

Office of the General  
Counsel, Washington,  
D.C.

Henry R. Wray, Senior Associate General Counsel  
Lynn H. Gibson, Assistant General Counsel  
Maureen A. Murphy, Attorney-Advisor

---

Office of Special  
Investigations,  
Washington, D.C.

Donald J. Wheeler, Deputy Director  
Donald G. Fulwider, Assistant Director  
Jim Locraft, Special Agent

---

New York Regional  
Office

Robert H. Hast, Assistant Director for Investigations  
John E. Tschirhart, Regional Assignment Manager  
Donald F. Lyons, Senior Evaluator  
Vincent R. Morello, Senior Evaluator  
Bonnie L. Derby, Evaluator

# Index

## A

Abedi, Agha Hasan, 22n  
Abu Dhabi, 14, 23, 40, 55  
    BCCI major shareholder, 4  
    information denied to GAO, 11  
    headquarters of BCCI, 2, 6n  
Abu Dhabi Investment Authority, 25n  
Adham, Kamal, 22n, 25n, 67n  
Agency of foreign bank, 2  
Altman, Robert A., 7-9, 10n, 16, 18, 23, 25n, 67n

## B

Bangladesh, 38n  
Bank Holding Company Act, 5, 6, 7, 22, 23, 30  
Banking Act (United Kingdom), 4  
Bank Insurance Fund, 30  
Bank of Credit and Commerce International (BCCI), 2  
    acknowledgement of bank ownership, 6, 22, 29-30  
    asset forfeiture, 29  
    associated names, 9, 11, 15, 16, 17, 53, 54-55  
    auditor concerns about, 3-5  
    auditor of, 3. *See also* Price Waterhouse  
    background of, 2-9  
    bank interests in United States, 5  
    closing of, 5  
    contributions, 9, 14, 43  
    cooperation with banking agencies, 17-18  
    Credit and Commerce American Holdings and, 24-26, 27, 28  
    deceptive practices, 3-5  
    deposit activity, 61  
    expenditures, 9, 14  
    Federal Reserve Board charges and enforcement, 5-6, 22  
    Financial General and, 25  
    First American banks and. *See* First American banks  
    headquarters, 6n  
    Independence Bank and, 2, 6, 10-11, 12, 16, 69-80  
    indictment against, 29  
    influence on U.S. banks, 15-17  
    loans, 4-5, 8, 28, 31, 50, 56-57, 67n  
    money laundering, 3n, 11, 27, 63, 71  
    nominee agreements, 4, 5-6, 11, 67n, 74, 78  
    ownership of U.S. banks, 2  
    payments to government officials, 9, 14  
    plea agreement, 6, 17-18, 22-23, 29-30, 51  
    regulatory history, 27-28  
    representative offices, 2  
    restitution fund, 29-30, 80n  
    secret arrangements with customers, 5n, 22  
    Securities Exchange Act violation, 23  
    state-licensed agencies, 2  
    supervision of, 3  
    transfer of cash from overseas accounts, 42  
    Washington, D.C., office. *See* Washington, D.C., office  
Bank of Credit and Commerce International Holdings, S.A., 2, 6n, 22, 77  
Bank of Credit and Commerce International (Overseas) Limited, 2, 6n, 67n, 77  
Bank of England, 4, 11  
Bank Secrecy Act, 51, 62-63, 64  
BCCI. *See* Bank of Credit and Commerce International

## C

California, Superintendent of Banks, 29n

Cayman Islands, 2, 3n, 5, 14, 40  
Central Intelligence Agency, 11, 24  
Centrust Savings Bank, 2  
Checking accounts, 61-62  
Checks (over \$50,000), 58  
China, 36  
Clifford, Clark M., 7-9, 10n, 16, 18, 21n, 23, 67n  
College of Supervisors, 3, 4  
Commodity Credit Corporation, 37  
Control Act, 7, 31  
Credit and Commerce American Holdings, 2, 3, 5, 6n, 55n  
    acquisition  
        Financial General, 24-25  
        National Bank of Georgia, 2  
    Altman/Clifford relationship to, 7-8, 16, 18, 30-31, 67n  
    BCCI and, 4, 22, 24-26, 27, 28  
    BCCI-related names, 54-55  
    commitments to Federal Reserve Board, 25  
    Federal Reserve Board investigation of, 28n, 47  
    loan agreements, 7-8, 31, 66, 67n  
    loss to, 67n  
    nominee agreements, 4, 67n  
    rights offering to shareholders of, 67n  
Credit and Commerce American Investment, 28n, 66  
Crescent Holding Company, 25n

## D

Darwaish, Abdullah, 25n  
Department of Justice Assets Forfeiture Fund, 29  
Deposits, 61-62, 77, 78  
Dubai, 40

## E

Edge Act corporation (First American), 53  
Egypt, 38n  
Embassies, 35-36  
England, 3n  
Expenses  
    First American, 64-65  
    Washington, D.C., office, 9, 14, 34, 40-42

## F

FDIC. *See* Federal Deposit Insurance Corporation  
Federal Deposit Insurance Corporation (FDIC), 54, 55  
    access to foreign documents, 17, 18  
    enforcement actions available to, 74n  
    examination  
        agenda of, 76-77  
        of First American, 27  
        of state-chartered banks, 5  
    Independence Bank investigation, 5, 13, 16-17  
        background, 70-74  
        corrective actions, 72-73  
        documentation, 10, 17, 69-70, 79-80  
        GAO assessment of, 69-80  
        special examinations, 10-11, 74-79  
    memorandum of understanding, 72, 73, 74  
    as receiver of closed bank, 73n, 80  
    San Francisco regional office, 13, 69  
Federal Deposit Insurance Corporation Improvement Act, 35n, 74n  
Federal Election Commission, 9, 43  
Federal Reserve Act, 53n  
Federal Reserve Bank

## Index

- 
- Atlanta, 13, 50, 52-53
  - New York, 52
  - Richmond, 13, 50, 52
  - Federal Reserve Board
    - access to information, 17, 18, 51
    - acquisition of Financial General and, 24-25
    - assistance from other regulators, 54
    - bank holding company approval, 22n
    - charges against BCCI, 5-6, 22
    - commitments from Credit and Commerce American Holdings, 25
    - discovery of money laundering, 27
    - documentation of examination, 50
    - enforcement proceedings, 7, 10n, 16, 18, 22, 23, 30-31, 67n
    - examination of First American, 5, 9-10, 15-16, 27-28, 47-68.
      - See also First American banks
    - investigation of First American Bankshares, Inc., 5, 15, 27-28, 74
    - list of BCCI-related names, 54-55
    - nominee arrangement evidence, 78n
    - plea agreement with BCCI, 22-23, 29-30, 51
    - representative offices approval, 35n
    - uncertainty regarding investigation, 10, 15, 55, 68
    - use of First American data, 55-56
  - Federal Reserve System, 5, 22, 29n, 69n
  - Financial General Bankshares, 23-25, 55n
  - First American Bank of Georgia, 5, 26, 52, 60, 61, 63n, 65
  - First American Bank of Maryland, 5, 52
  - First American Bank of New York, 5, 16, 18, 52, 60, 61, 63n, 65, 67, 67n
  - First American Bank of Pensacola, Fla., 5, 25, 26, 53, 56
  - First American Bank of Virginia, 5, 52
  - First American Bank of Washington, D.C., 5, 52
  - First American banks, 12n
    - account closures, 62
    - acquisition by BCCI, 6, 23-24, 32-33
    - activities examined, 49, 51, 56-61
    - Altman/Clifford relationship to, 7-8, 31
    - approach to foreign embassies in Washington, D.C., 36
    - balance sheet changes since 1984, 66
    - Bank Secrecy Act compliance, 62-63, 64
    - BCCI influence on, 9-11, 15-16, 17, 28n, 35, 38, 56
    - capitalizing, 30
    - cash activity, 62-64
      - checking account activity of top officials, 61-62
    - checks (over \$50,000), 58
    - criminal referrals, 65-66
    - customer complaints, 66
    - deposits, 61-62
    - expenses, 64-65
    - internal study into relationship with BCCI, 53-54
    - investigations and examinations of, 4-5, 9-11, 13, 27, 47-68
    - investment securities, 66
    - letters of credit on real estate, 60
    - litigation, 66
    - loans, 55, 56, 58-61, 66
    - national, 5
    - off-balance-sheet activity, 65
    - overdrafts, 57-58
    - personnel review, 64
    - Public Law 480 business, 38
    - real estate, 60, 67
    - relationship to Independence Bank, 74, 75
    - state-chartered, 5
    - Washington office of BCCI and, 36, 37
    - wire transfer activity, 63
    - withdrawals, 62
  - First American Bankshares, Inc., 2, 3, 6, 12, 53, 55n
    - BCCI ownership of, 22, 29-30
    - Federal Reserve Board examination, 5, 15, 27-28, 74
    - investigation of, 9n, 28n
    - loan agreements, 66
    - losses, 9
  - First American Corporation, 6n, 25, 66
  - First American Metro Corporation banks, 52, 60, 61, 63
  - First Interstate Bank of California, 80
  - France, 3n
  - Al-Fulaij, Faisal Saud, 22n, 25n
- 
- ### G
- General Accounting Office (GAO)
    - assessment
      - of FDIC investigation, 10, 13, 17, 69-80
      - of Federal Reserve examination, 10, 13, 47-51
    - denied access to information, 11-12
    - documentation of FDIC investigation, 11, 79-80
    - uncertainty regarding investigations, 17, 18, 55, 68, 70
  - Ghana, 36n, 38n
  - Gulf Investment & Real Estate Co., 25n
- 
- ### H
- Hearings, congressional, 9, 24, 27
  - Hong Kong, 3n
- 
- ### I
- IBA. See International Banking Act
  - Independence Bank (Encino, Calif.), 2, 5, 6
    - acquisition by BCCI, 29, 32-33, 69
    - agenda for examination, 76-77
    - background of, 70-74
    - capitalizing, 30
    - closing of, 7, 17, 30n, 73, 76, 80
    - corrective actions requested for, 72-73
    - examination by FDIC, 10-11, 69-80
    - influence of BCCI on, 10-11, 16, 73-79, 78-79
    - investigation of, 16-17
    - joint real estate ventures, 70-71, 72, 75, 77, 78
    - Kemal Shoaib and, 71, 72, 74, 75
    - memorandum of understanding, 72, 73, 74
    - ownership of, 22, 70
    - regulator of, 69
    - relationship to First American Bank, 74, 75
  - Information, access to, 11-12, 17-18, 51
  - International Banking Act (IBA), 2, 6, 35
  - International Credit and Investment Company (Overseas), 67n
  - International Monetary Fund, 39
- 
- ### J
- Jamaica, 36n, 38n
  - Jawhary, Sayed, 22n, 25n
- 
- ### K
- Kenya, 38n
  - Khalil, A.R., 22n, 25n
  - Kuwait, 23
- 
- ### L
- Letters of credit, 9-10, 15n, 60, 67

---

Index

---

Liberia, 38n  
Litigation, 66  
Loans

BCCI, 4-5, 8, 28, 31, 56-57, 67n  
charged-off, 10, 50, 55, 56-57, 58, 59, 78  
commercial and development, 59-60  
Credit and Commerce American Holdings, 7-8, 31, 67n  
examination of, 71n  
First American, 58-61, 66  
insider, 59  
nonperforming, 4, 28  
over \$1 million, 58-59  
participation, 60-61  
secret, 5n  
secured by certificates of deposit, 59

London, 14, 39, 71  
Luxembourg, 3n, 5, 6n, 39

**M**  
Malaysia, 36n, 37  
Mashriq Holding Company, 22n, 25n  
Mauritius, 38  
Money laundering, 3n, 11, 27, 63, 71

**N**  
Al Nahyan, Sheikh Mohammad bin Zayed, 25n  
Al-Naomi, Humaid Bin Rashid, 22n, 25n  
Naqvi, Swaleh, 22n  
National Bank of Georgia, 2, 7, 8, 13, 29, 30, 31, 52, 53, 63  
Netherlands Antilles, 3, 24  
New York, Superintendent of Banks, 29n  
New York Supreme Court, 30  
Nigeria, 39  
Nominee agreements, 4, 6, 11, 67n, 74, 78

**O**  
OCC. *See* Office of the Comptroller of the Currency  
Off-balance-sheet activity, 15n, 65  
Office of the Comptroller of the Currency (OCC), 5, 13, 15, 27, 29n, 54, 55  
Office of Thrift Supervision, 29n  
Overdrafts, 15n, 57-58

**P**  
Pakistan, 36n  
Panama, 14, 40  
Pan American Health Organization, 39  
Personnel, examination of, 64, 65  
Pharaon, Ghaith, 16, 22, 53n, 70-74, 77-79  
Philippines, 36n, 38  
Plea agreement, 6, 17-18, 22-23, 29-30, 51  
Price Waterhouse, 3, 12, 28  
Protocol requests, 39  
Public Law 480, 38

**Q**  
Qabazard, Mohammad Hussain, 25n

**R**  
Real estate, 60, 67, 77  
Real Estate Development Co., 25n  
Representative office of foreign bank, 2. *See also* Washington, D.C., office  
Resolution Trust Corporation, 29n  
Restitution fund, 29-30

**S**  
San Francisco Regional Office (FDIC), 69  
Saudi Arabia, 23  
SEC. *See* Securities and Exchange Commission  
Securities and Exchange Commission (SEC), 23, 29n  
Securities Exchange Act, 23  
Shoaib, Kemal, 22n, 71, 72, 74, 75  
Shorafa, Ali Mohammed, 22n, 25n  
Spain, 3n  
Sri Lanka, 38n  
Stock Holding Company, 25n  
Sudan, 38n  
Switzerland, 3n

**T**  
Turkey, 36n

**U**  
U.S. Agency for International Development, 37  
Private Sector Revolving Fund program, 38  
U.S. Department of Agriculture, 37  
U.S. Department of Commerce, 24  
U.S. Department of Justice, 9, 11, 22, 29, 31  
U.S. Department of State, 24  
U.S. Department of the Treasury, 29, 35  
U.S. Disgorgement, Compensation, and Penalty Fund, 29, 30  
U.S. District Court for the District of Columbia, 6, 9  
U.S. Export-Import Bank, 37  
U.S. Fund. *See* U.S. Disgorgement, Compensation, and Penalty Fund  
United Arab Emirates, 3n  
United Kingdom, 11

**V**  
Valley Fidelity Bank and Trust Company, 25, 26, 53

**W**  
Washington, D.C., office (BCCI), 2, 9, 12-13  
activities of, 12-13, 17, 35-39  
attracting accounts for BCCI entities, 9, 14, 35-36, 38  
contributions to political committees, 9, 17, 43  
embassy contacts, 35-36  
establishment of, 35  
finances of, 9, 14, 39-42  
First American Bank involvement with, 36, 37  
GAO study of, 12-13, 29-30  
gifts, 9, 43  
government agency contacts, 33, 37-38  
international financial institutions and, 38-39  
payments to government officials, 9, 43  
payroll, 14, 42-43  
protocol requests, 39  
relationship with U.S. public officials, 12, 17, 18, 35, 43  
Wire transfers, 63, 78  
Withdrawals, 62  
World Bank, 39  
Worldwide Victims and Creditors Compensation Fund, 29, 30  
Worldwide Victims Fund. *See* Worldwide Victims and Creditors Compensation Fund

**Z**  
Zimbabwe, 38

---

---

### **Ordering Information**

**The first copy of each GAO report is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.**

**U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20877**

**Orders may also be placed by calling (202) 275-6241.**

---

**United States  
General Accounting Office  
Washington, D.C. 20548**

**Official Business  
Penalty for Private Use \$300**

<p><b>First-Class Mail Postage &amp; Fees Paid GAO Permit No. G100</b></p>
--