Investor Alerts and Bulletins

Investor Alert: “Prime Bank” Investments Are Scams

Feb. 5, 2015

The SEC’s Office of Investor Education and Advocacy (OIEA) is issuing this Investor Alert to warn investors about fraudulent investment schemes involving purportedly high-yield, risk-free international finance programs.

All “prime bank” investment programs are fraudulent. Promoters of prime bank programs often claim that investors’ funds will be used to buy and trade supposed prime bank instruments, and that investors will receive guaranteed, high investment returns with little or no risk. Promoters try to make the schemes sound legitimate by using complex, sophisticated, and official-sounding terms. These may include: debenture, standby letter of credit, bank guarantee, prime world bank financial instrument, private funding project, offshore trade or trading program, trading platform, trading facility, trade slot, high-yield trading or roll program, guaranteed bank note, or some variation.

Keep in mind that the terms used to promote these schemes are just one aspect to scrutinize – in fact, some promoters may avoid using the term “prime bank” entirely. To better protect yourself, be on the lookout for these red flags of prime bank fraud:

- **If someone approaches you about investing in a prime bank program, prime world bank financial instrument, or similar high-yield security, it is a scam.** These investments do not exist. Promoters may tell investors that they will receive a return of their principal after a few days or weeks and continue to receive their guaranteed return.

- Promoters may falsely claim that the instrument is issued, traded, or guaranteed by a well-known organization such as the World Bank, the International Monetary Fund (IMF), a central bank (such as the U.S. Federal Reserve), or the International Chamber of Commerce (ICC). They also may misrepresent that the instrument is issued, traded, or guaranteed by an international or private bank or trust located abroad.

- Promoters may claim that investment opportunities are by invitation only and limited to select, wealthy customers. Often promoters will say or imply that these types of investments are the exclusive, “secret way” that wealthy people make all their money. They cite secrecy if potential investors ask for references, and sometimes ask investors to sign non-disclosure agreements.

- Promoters may hire escrow agents or use escrow accounts to receive and disburse investor money. Promoters may falsely claim that investor funds will be kept safe and protected from loss in an escrow or trust account.

- Promoters may advertise using national newspapers, social media, or classified advertisement websites, and they may avoid using the term “prime bank.” They may explicitly deny that their programs involve prime bank instruments. Regardless, investors should be wary of any offer to invest in a high-yield, risk-free international finance program.
Do not invest your money with unlicensed or unregistered sellers. Many fraudulent investment schemes involve persons who are not licensed or registered as investment advisers or broker dealers. Even if you personally know the person recommending or selling an investment, check whether he or she is licensed or registered and, if so, whether he or she has any disciplinary history. Use the SEC’s Investment Adviser Public Disclosure (IAPD) website and the Financial Industry Regulatory Authority (FINRA)’s BrokerCheck website, and contact your state securities regulator.

The SEC has initiated enforcement actions against prime bank promoters. In In the Matter of Spectrum Concepts, LLC, Donald James Worswick, Michael Nicholas Grosso, and Michael Patrick Brown, a Florida company, its president, and two other individuals were charged for allegedly operating a prime bank scheme, offering what they called “Private Joint Venture Credit Enhancement Agreements.” The respondents allegedly told investors that their money would be placed in “private funding projects” and used to “set up” a “credit facility” and a “trade slot” that would then be “blocked” for the benefit of a supposed “trade platform.” The respondents also allegedly promised investors that they would earn returns ranging from 900% in 20 days to 4,627% annually. In an effort to make the offering seem legitimate, the respondents allegedly used an “escrow agent” to receive investor funds even though the supposed investments did not exist and investor funds were used for other purposes.

In SEC v Butts, et al., the SEC charged numerous individuals and entities for allegedly conducting a prime bank scheme. Defendants allegedly told investors that an initial investment of $60,000-$90,000 would be used to purchase Standby Letters of Credit that would be invested in a trading program yielding an immediate return of more than $8 million within 15 to 45 business days, to be followed by earnings of approximately 14% per week. Defendants allegedly assured investors that an attorney would hold the investors’ funds in escrow until the bank instruments were obtained. According to the SEC’s complaint, investors were lured through the Internet, telephone, and personal contact with promises of extraordinary profits. The SEC alleges that the purported international trading program did not exist and that the defendants used the investors’ money to pay their own personal expenses such as travel and gambling.

If you are approached to invest in a prime bank program, be aware that it is an investment scheme and report it to the SEC.

Additional Resources

Updated Investor Alert: Social Media and Investing - Avoiding Fraud

Investor Alert: Be on the Lookout for Advance Fee Fraud


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