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Provident Capital Indemnity, Its President and Auditor Charged in \$670 Million Fraud Scheme

RICHMOND, Va. – The president and the auditor of a Costa Rican company selling reinsurance bonds to life settlement companies were arrested and charged, along with the company itself, in a seven-count indictment unsealed today for their alleged role in a \$670 million fraud scheme involving victims throughout the United States and abroad.

The charges were announced today by U.S. Attorney for the Eastern District of Virginia Neil H. MacBride and Assistant Attorney General Lanny A. Breuer of the Criminal Division.

An indictment unsealed today in U.S. District Court for the Eastern District of Virginia charges Costa Rica-based Provident Capital Indemnity Ltd. (PCI), Minor Vargas Calvo, 59, and Jorge Castillo, 55, each with one count of conspiracy to commit mail and wire fraud, three counts of mail fraud and three counts of wire fraud. The indictment also seeks forfeiture of more than \$40 million from all three defendants. Vargas was arrested on Jan. 18, 2011, at the John F. Kennedy International Airport, and Castillo was arrested earlier today in New Jersey.

“PCI is accused of lying to investors across the globe to sell more than half a billion dollars worth of ‘guaranteed’ bonds which turned out to be worthless,” said U.S. Attorney MacBride. “This case is another example of how the members of the Virginia Financial and Securities Fraud Task Force are working to detect, deter and punish financial fraudsters who target investors throughout Virginia, the nation and the world.”

“These defendants allegedly sold \$670 million in bonds by making numerous false representations, which were disseminated to thousands of investors,” said Assistant Attorney General Breuer. “They stand accused of defrauding victims at home and abroad. As these charges show, the Justice Department is committed to rooting out investment fraud wherever we find it.”

According to the indictment, Vargas, a citizen and resident of Costa Rica, is the president and majority owner of PCI, an insurance and reinsurance company registered in the Commonwealth of Dominica and doing business in Costa Rica. Castillo, a resident of New Jersey, is the purported independent auditor for PCI. If convicted, Vargas and Castillo face up to 20 years in prison on each count.

The defendants allegedly engaged in a scheme to defraud clients and investors by making misrepresentations about PCI’s reinsurers, PCI’s financial statements and PCI’s Dun and Bradstreet rating, in connection with PCI’s marketing and sale of “financial guarantee bonds” to companies that sold life settlements or securities backed by life settlements to investors. PCI’s bonds were allegedly marketed as a way to eliminate one of the primary risks of investing in life settlements, namely the possibility that the individual insured by the underlying life insurance policy will live beyond his or her life expectancy.

The indictment alleges that from 2004 through 2010, PCI sold approximately \$670 million of bonds to life settlement investment companies located in various countries, including the United States, the Netherlands, Germany, Canada and elsewhere. PCI’s clients, in turn, sold investment

offerings backed by PCI's bonds to thousands of investors around the world. Purchasers of PCI's bonds were allegedly required to pay up-front payments of 6 to 11 percent of the underlying settlement as "premium" payments to PCI before the company would issue the bonds.

This continuing investigation is being conducted by the U.S. Postal Inspection Service, Internal Revenue Service and FBI, with assistance from the Virginia State Corporation Commission, the Texas State Securities Board, and the New Jersey Bureau of Securities. This case is being prosecuted by Assistant U.S. Attorneys Michael S. Dry and Jessica A. Brumberg of the Eastern District of Virginia and Trial Attorney Albert B. Stieglitz Jr. of the Criminal Division's Fraud Section.

In a parallel investigation, the U.S. Securities and Exchange Commission announced today its filing of a parallel emergency enforcement action against PCI, Vargas and Castillo.

An indictment is a formal accusation of criminal conduct, not evidence. A defendant is presumed innocent unless and until convicted through due process of law.

The investigation has been coordinated by the Virginia Financial and Securities Fraud Task Force, an unprecedented partnership between criminal investigators and civil regulators to investigate and prosecute complex financial fraud cases in the nation and in Virginia. The task force is an investigative arm of the President's Financial Fraud Enforcement Task Force, an interagency national task force.

President Obama established the Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.