President of Costa Rican Company Sentenced to 60 Years in Prison for Half-Billion Dollar Fraud Scheme with Thousands of Victims Worldwide

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RICHMOND, Va. – The president of a Costa Rican company that sold reinsurance bonds to life settlement companies was sentenced today in Richmond, Va., to 60 years in prison for carrying out a half-billion-dollar fraud scheme that affected more than 3,500 victims throughout the United States and abroad, announced U.S. Attorney for the Eastern District of Virginia Neil H. MacBride and Assistant Attorney General Lanny A. Breuer of the Justice Department's Criminal Division.

Minor Vargas Calvo, 61, a citizen and resident of Costa Rica, is the majority owner of Provident Capital Indemnity (PCI) Ltd., an insurance and reinsurance company registered in the Commonwealth of Dominica and doing business in Costa Rica. He was convicted on April 30, 2012, of one count of conspiracy to commit mail and wire fraud, three counts of mail fraud, three counts of wire fraud and three counts of money laundering.

"Mr. Vargas masterminded a criminal reinsurance company that fraudulently claimed to guarantee almost half a billion dollars of life settlement investments sold to thousands of investors worldwide," said U.S. Attorney MacBride. "Many of these investors lost their life savings because of the worthless guarantees PCI made. Mr. Vargas mistakenly believed that he could avoid punishment for the countless lives he destroyed because he operated his scheme from a non-extradition country. But, this prosecution demonstrates our resolve and ability to pursue justice on behalf of U.S. victims regardless of where the fraudsters may be hiding."

"Mr. Vargas's reinsurance company was a house of cards, built on a foundation of deception and lies," said Assistant Attorney General Breuer. "He reaped millions in profit from his scheme to sell nearly $500 million worth of guarantee bonds to more than 3,500 victims, and then spent his spoils on his soccer team and himself. Today's sentence reflects the determination of our agents and prosecutors to bring sham artists like Mr. Vargas to justice."

According to court records and evidence at trial, PCI sold financial guarantee bonds to companies selling life settlements, or securities backed by life settlements, to investors. These bonds were marketed to PCI's clients as a way to alleviate the risk of insured beneficiaries living beyond their life expectancy. PCI's clients, in turn, typically explained to their investors that the financial guarantee bonds ensured that the investors would receive their expected return on investment irrespective of whether the insured on the underlying life settlement lived beyond his or her life expectancy.

Evidence at trial showed that Vargas and PCI's purported independent auditor for PCI, Jorge Castillo, 57, of New Jersey, used lies and omissions to mislead PCI's clients and investors regarding PCI's ability to pay claims when due on the financial guarantee bonds that PCI issued. Vargas caused Castillo to prepare audited financial statements that falsely claimed that PCI had entered into reinsurance contracts with major reinsurance companies. These false claims, which were supported by a letter from Castillo stating that he conducted an audit of PCI's financial records, were used to assure PCI's clients that the reinsurance companies were backstopping the majority of the risk that PCI had insured through its financial guarantee bonds. The fraudulent financial statements PCI distributed also showed significant assets and relatively small liabilities.

From 2004 through 2010, PCI sold at least $485 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 required to pay up-front payments of six to 11 percent of the underlying settlement as "premium" payments to PCI before the company would issue the bonds.

Evidence at trial showed that Vargas spent more than $23 million of his ill-gotten gains on his professional soccer teams in Costa Rica, his unrelated companies, his family and himself. Due, in part, to these expenditures, when it came time to make good on PCI's promises to pay bond holders, Vargas resorted to yet more lies to justify PCI's inability to do so.

Castillo, who was a PCI employee prior to becoming PCI's "outside auditor," pleaded guilty on Nov. 21, 2011, to conspiring to commit mail and wire fraud, which carries a maximum penalty of 20 years in prison. Castillo is scheduled to be sentenced on Nov. 30, 2012. In addition, PCI pleaded guilty on April 18, 2012, to conspiring to commit mail and wire fraud. PCI was sentenced on Sept. 6, 2012, to one year of probation.

This investigation is being conducted by the U.S. Postal Inspection Service, the 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 Aber Brumberg of the Eastern District of Virginia and Assistant Chief Albert B. Stieglitz Jr. of the Criminal Division's Fraud Section.

The U.S. Securities and Exchange Commission (SEC) conducted a parallel investigation and in January 2011 filed a parallel civil enforcement action against PCI, Vargas and Castillo. The department thanks the SEC for its assistance in this matter.

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 specifically. 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 (FFETF) in November 2009 to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. Attorneys' offices and state and local partners, it's the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed more than 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,700 mortgage fraud defendants. For more information on the task force, visit www.stopfraud.gov.