“DEFRAUDED IN AMERICA”

Testimony of Stan Kauffman
Victim, Stanford Financial Group Ponzi Scheme

May 13, 2011

House Financial Services Subcommittee
on Oversight and Investigations Hearing:

The Stanford Ponzi Scheme:
Lessons for Protecting Investors from the Next Securities Fraud

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Good morning ladies and gentlemen. I would like to thank Chairman Neugebauer, Vice-Chairman Fitzpatrick, Ranking Member Capuano and the honorable members of the House Financial Services Subcommittee on Oversight and Investigations for holding this hearing today and for looking deeper at what is surely one of the most inconceivable acts of financial regulatory failure in our nation's history. I thank you also for allowing me the opportunity to tell my story.

My name is Stan Kauffman. I live in Blue Bell, Pennsylvania, a suburb of Philadelphia. I am 63 years old. In 2005, I retired from the Philadelphia public school system where I taught science for 31 years. I'm very proud of the work I did with disadvantaged children and would like to think I made a difference in their lives. I worked a second job all 31 years, and when I retired, I withdrew my retirement from the Pennsylvania Public School Employee's Retirement System and sought a safe, conservative investment to protect my savings.

My widowed mother-in-law introduced us to a Stanford Group Company broker dealer/financial advisor. He came highly recommended to her through a mutual friend, who had worked with him for 20 years before he joined the Stanford Group. She was very pleased with how effectively he managed her small retirement. My wife, Linda, and I looked into the Stanford Group and saw that it was an SEC-registered broker dealer and a member of FINRA and SIPC. We looked into his background and saw that he had worked for Prudential Securities, EF Hutton, Shearson Lehman Hutton, Smith Barney, Legg Mason and UBS Financial and had 30+ years of experience. Linda and I and were impressed with his knowledge of the financial markets and the various securities products available. We explained that we did not want to take big risks and wanted a safe place for my teacher's retirement as well as our life savings. He told us about Stanford's signature product—a Certificate of Deposit at Stanford International Bank. He explained that Stanford International Bank was part of the Stanford Financial Group of Companies, which had offices throughout the world and in the U.S. He explained the bank was heavily regulated and that the deposits were insured by Lloyd's of London. Despite sensationalized reports of high rates of return, there were no double-digit interest rates on the CDs. The rate we were offered was 8%--a mere 2% higher than other banks at the time. He explained that Stanford was able to offer the higher return because the bank did not have the expense of a brick and mortar presence in the US. It was all very well presented in glossy marketing brochures, which we knew were approved by FINRA. He also explained the Stanford CDs were safer than other banks due to the conservative nature of the underlying investment portfolio and that the CDs were an all-around "safe" choice for us. Ultimately, we invested our savings of $500K in these safe CDs, including my teacher's retirement.

I am the first to admit that I do not claim to be a savvy investor and I absolutely relied on the professional expertise of a FINRA-licensed and SEC-registered representative, who according to U.S. securities laws had a fiduciary duty to recommend the most appropriate investment for my needs. When he explained Stanford International Bank was based in Antigua, I admit that I was a bit nervous. Then he explained to me that the Stanford Financial Group was based in Houston, Texas. Furthermore, I was told the bank's owner was a U.S. citizen, and that all of the company's operations were managed from the U.S. Any concern I had was reassured by the company's stellar reputation, his credibility and the documentation materials we were provided. I also thought a certificate of deposit was a very conservative approach to safeguarding our retirement funds. The fact Stanford's operations were managed in the U.S. and subject to U.S. laws made me comfortable with my decision. At the end of the day, I had to trust the professional. We live in a service-based society and when I have medical needs, I go to the Dr. When my car is broken, I go to the mechanic. When my plumbing is broken, I call the plumber. So when it came to investing our savings, I went to an SEC and FINRA regulated broker.

That's how I ended up with Stanford Group Company and investing in bogus Certificates of Deposit in Stanford International Bank. From 2005-2009, my wife and I continued to invest with the Stanford Financial Group and watched as the company grew by leaps and bounds, opening a total of about 30 offices in the US. We saw Stanford International Bank grow by billions of dollars in deposits. We saw photos of our Senators and Congressmen with Allen Stanford and we saw the Stanford Financial Group draw unquestionably credible Advisory Board Members like former House Financial Services Committee Chairman Michael Oxley, the former President of Switzerland, and a former assistant Secretary of State and Ambassador to Ecuador just to name a few. I would like to mention one other source of reassurance we were given along the way. In February 2008, a copy of a card from President George W. Bush applauding the Stanford Financial Group accompanied the Stanford newsletter.   We had ZERO reason to doubt the stability of any Stanford company. But we did not know what the Government regulators knew.

On February 17, 2009, our world was turned upside down when we learned that Allen Stanford and the Stanford Financial Group of Companies had been accused of "Massive, Ongoing Fraud." Massive ONGOING Fraud. We thought, "How could this be?" We watched the news coverage in shock and appall as we realized our government regulators failed us in an unprecedented manner and that our life savings were gone.

As media stories broke, we learned the SEC's knowledge of Stanford's wrongdoing went back many years. We learned about dozens of FINRA arbitration cases in which Stanford employees alleged fraudulent business practices, yet FINRA sided with Stanford in every single case. In April 2010, the SEC's Inspector General reported the SEC had suspected Stanford was operating a Ponzi scheme for 12 years before they took any effort to protect investors. How is this possible our government regulators can do this and not only get away with it, but then the "fix" has been to give them more power, more money and more people? According to the Inspector General, the SEC's failure to stop Stanford had nothing to do with a lack of resources and everything to do with the SEC's culture.

I'd like to share with you what my wife and I have faced in the last 2 years. Very shortly before the SEC filed suit against Stanford, my wife lost the job she'd had for over 11 years when the company she worked for downsized as a result of the economic downturn. We were forced to put our house up for sale. I had to go back to work.

After losing our life savings, my wife losing her job, being forced out of retirement and back into the workforce, and having to put our home up for sale, then we got the bad news. In 2009, my wife and I were both diagnosed with cancer and had to undergo multiple surgeries. Fortunately, we're survivors, but the stress of Stanford has taken its toll. The devastating reality that our government regulators failed us and won't even "really" cooperate to fix it, has taken its toll.

Ladies and gentlemen I'm not here today to just tell you my story but I am also here to speak on behalf of the thousands of other Americans devastated by this horrendous Ponzi scheme. Victims like Lisa and Anthony Tehti of Florida. Anthony was a New York Police Department detective who risked his life to protect the citizens of New York. Anthony's mother Theresa, a widow in her 70's, also invested her life savings. There are others like Pat and Jerry Raeder from St. Louis, Missouri. Jerry served in the U.S. Air Force and is a proud veteran of the Vietnam War. He spent his professional career as an architect. Pat, a breast cancer survivor, was a dedicated special education teacher who was recognized as a Teacher of the Year in St. Louis in 1998. Pat and Jerry have been forced to sell their home and at age 68, Jerry is back to working.

Then there are Richard and Donna Cochran from Baton Rouge, Louisiana. Colonel Cochran is a 78-year-old Korean War veteran who worked for almost 50 years in the construction business. He worked 12 + hour days and 80+ hour weeks. During his career he built schools, hospitals, office buildings and even worked on construction at Cape Canaveral. Along with working full time he pursued a college education in night school. Donna spent her nursing career in Louisiana hospitals.

The Stanford Ponzi scheme was pervasive and there are thousands of victims like myself and the others I've mentioned here. These are not wealthy people but were hardworking, honest, law abiding citizens. These are everyday, middle-class Americans who were preyed upon by a criminal enterprise with a sales force of 200 of the most qualified professionals in the industry. These are people who were looking for a place to protect their savings. These are the people who should have been protected by the SEC and FINRA. They should be enjoying their golden years instead of fighting the SEC and a Receiver they've put in place who has charged more in professional fees than he's collected for the victims.

The insult added to injury here is the reality we've been victimized a second time as the SEC has seemingly gone out of its way to not order the protection we feel we legally qualify for from the Securities Investor Protection Corporation (SIPC). Aside from being sold securities that never even existed, the Receiver's forensic accountant (chosen by the SEC) has testified in the District Court that our money did not even go to Stanford International Bank and that it certainly didn't go to purchase the CDs we were sold. Our money sat in US bank accounts regulated by the FDIC and then was used to pay previous investors and for bankrolling the Stanford Financial Group's expansion. SIPC is mandated to protect investors from a broker dealer stealing its customer's funds. The SEC has accused Stanford, et al, of stealing our funds in a "massive Ponzi scheme." When it comes to repairing the damage of the SEC's aborted attempts to protect us in the first place, we are being told our money was stolen the <u>wrong</u> way. How can SIPC and the SEC now take the side of Allen Stanford by taking the position that we received a "legitimate expectation" from Stanford International Bank so SIPC's responsibility is absolved? There was nothing "legitimate" about Stanford International Bank and the SEC has alleged as much in their lawsuit against Stanford.

If Stanford Group Company customers do not have the right to make a claim with SIPC for their retirement savings that were stolen in a Ponzi scheme, then SIPC helped Stanford create a false sense of confidence that helped defraud citizens like me from across the country.

How can this all be fixed? Can it ever be turned around? I don't have the answers and hopefully we'll learn more today, but I do know we are not on the right track. What I've seen over the past 2 years is something Congress should be VERY concerned about, and the SEC and FINRA should be ashamed of. We've watched over the last 2 years as SEC and FINRA officials told Congress and the American people about a "reformed SEC" and a "tougher FINRA." This is nothing more than lip service.

In the aftermath of the collapse of Stanford, FINRA has chosen to protect its members by not pursuing numerous rule violations, but also not disclosing to the public their members' involvement in the Stanford Ponzi scheme. Additionally, the SEC has shown how little regard the agency has for those who've suffered from their years of failure. In more than 2 years, we've never had any formal communication from the SEC about what has happened in the Stanford case, what is going to happen, or even if anything is going to happen. The U.S. government regulators have abandoned thousands of America's seniors who have been struggling to get by as they wait month in and month out for the SEC to finally respond to an 18-month old request to initiate a SIPC liquidation of Stanford Group Company. In that time, more than 150 signatures from Members of Congress have appeared on letters urging the SEC to finally make a decision.

Chairman Schapiro has testified saying, “We’re looking for every way possible” to provide SIPC compensation to Stanford Group Company customers. This simply isn’t true and it appears the SEC is looking for every way out of ordering such coverage despite caselaw supporting such action. They’ve turned a very simple case for SIPC action and made it extremely complicated—and they’ve put the burden on the investors to produce documentation only the SEC has access to.

Chairman Neugebauer, Vice-Chairman Fitzpatrick, Ranking Member Capuano and honorable members of the subcommittee, please do not allow the SEC, FINRA and now SIPC to get away with what has transpired in this case. This is not the way American taxpayers should be treated. We need help, your help to get our lives back. Stanford stole our savings, but the SEC and FINRA held the door wide open. Please don’t stand for that door to now be slammed shut in our faces.

Thank you for your time and your attention.