

# Fed Seeks to Fine BCCI \$200 Million

## Bank Charged With Secret Control of First American Since 1978

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The Federal Reserve Board yesterday said it will seek a record \$200 million fine against the Luxembourg-based Bank of Credit and Commerce International after finding that BCCI secretly owned First American Bankshares of Washington and influenced major investment decisions at the bank for more than a decade.

Beginning in 1978, the Pakistani officers of BCCI conspired with a group of Middle Eastern frontmen to take control First American without

the knowledge of American bank regulators, who would not permit BCCI to acquire a U. S. bank, the Fed said in a summary of evidence gathered so far in its investigation.

The 100-page Fed report sharpens the central bank's confrontation with two of Washington's most prominent attorneys, Clark M. Clifford and Robert A. Altman, the chairman and president of First American. Their assurances that BCCI would have no involvement in First American was pivotal in regulators' decisions to permit the Middle Eastern investors to acquire the Washington-based banking company.

Long after Clifford and Altman took command of First American in 1982, the Fed said, BCCI exercised a direct influence on major management decisions, including the 1983 acquisition of bank branches in New York, the 1984 hiring of key executives and the 1986 purchase of the National Bank of Georgia (NBG).

The Fed said that BCCI arranged a series of transactions in First American bank stock that produced a trading profit of \$9.8 million for Clifford and Altman—a profit they said was compensation for their services to First American.

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Clifford and Altman have asserted that they were unaware of BCCI ownership and have denied that BCCI had any influence over First American's operations.

In addition to seeking the \$200 million fine, the Fed moved to bar permanently from U. S. banking former BCCI President Aghas Hasan Abedi; former BCCI chief executive officer Swaleh Naqvi, former BCCI executive Hasan Mahmood Kazmi; Saudi financier Ghaith R. Pharaon; First American senior executive Khasuro Elley, and the four original First American shareholders, Kamal Adham, Aisal Sau Al-Fulaij, A.R. Khalil and Sayed Jawhary. The Fed's order can be contested in public hearings.

The Fed's action is expected to have little impact on the day-to-day operations of First American, whose funds are guarded by a Fed order. The Fed's "action today does not affect the operations of any of the banks in the United States over which BCCI gained control," said First American President Jack Beddow.

Officials said that the Fed investigation and a parallel criminal inquiry by a New York county grand jury continues. Incidents that involve

both Clifford and Altman are mentioned at several points in the Fed summary, but they were not the subject of action by the Fed yesterday. "The investigation is not complete," said Fed General Counsel Virgil Mattingly. "The case is not completed. The Fed is continuing to investigate this matter to determine all who are responsible."

Clifford and Altman declined through an attorney to be interviewed yesterday. "Mr. Clifford and Mr. Altman continue to maintain that they have always acted in the interests of First American," said Washington attorney Robert Bennett. "No depositor has lost a penny. BCCI never exercised controlling influence, or made management decisions for First American. Mr. Clifford and Altman have cooperated with the authorities, and will continue to do so."

Why BCCI engaged in one of the great deceptions of banking history remains one of the mysteries of the First American saga. The Fed's account begins with the efforts of Abedi desire to acquire a bank in the United States over the objections of regulators but offers no theories about Abedi's motives.

Because BCCI's far-flung opera-

tions lay beyond the reach of banking supervisors in any one country, American regulators refused to permit BCCI to own any American banks outright.

On Jan. 30, 1970, BCCI executive Abdus Sami sent a telex to Abedi that he had retained Clifford to handle Fed approval and was lining up names to use of frontmen or nominees, as they are described in the Fed report. Sami added, "We must be careful that our name (BCCI) does not appear as financier to most of (the investors) for this acquisition," said the telex, one of many documents the Fed has culled from BCCI files.

During a special April 1981 hearing on the acquisition, Altman said there was "no connection" between BCCI and First American, while Clifford said, "There is no function of any kind on the part of BCCI. . . I know of no planned future relationship."

In fact, said the Fed, BCCI funded, often through an entity known as International Credit and Commerce International (ICIC) Overseas Ltd., virtually all of the capital Adham and other nominees placed into CCAH.

The Fed said BCCI also loaned Adham \$30 million so that he would un-

derwrite a \$50 million syndicated loan purportedly arranged by the Paris-based Banque de Advertissement Investissement Internationale (BAII).

"None of the loans extended by BCCI or ICIC overseas for the Purchase of CCAH shares held in the name of Adham has been repaid . . . except through other loans from BCCI or ICIC Overseas." the Fed summary said. CCAH refers to First American's parent company, Credit and Commerce American Holdings. ". . . BCCI paid Adham at least \$2 million to compensate him for acting as its nominee."

The Fed said that in early 1986 "BCCI's auditors discovered enormous losses" from foreign exchange trading that threatened to wipe out BCCI's capital. At the same time, said the Fed, another BCCI frontman, Ghaith Pharaon, was in trouble and was in danger of having creditors seize another BCCI asset, the National Bank of Georgia.

Consequently, BCCI undertook a desperate series of transaction that, in the view of regulators, revealed just how deeply involved BCCI was in affairs of First American and adds detail to the stock transaction that benefited Clifford and Altman.

BCCI recruited a new financial

backer, the Mahfouz family of Saudi Arabia, which agreed to help if it could acquire, according to documents obtained by the Fed, 30 percent of BCCI and 30 percent of CCAH.

BCCI agreed and arranged a series of transactions that concluded with a CCAH rights offering July 25, 1986, that lowered the price of CCAH shares during a two-day period from \$5,000 per share to \$4,044 and then to \$2,216, at which point Clifford and Altman were allowed to acquire 6,742 shares, using funds loaned to them by BCCI. Four days later the CCAH stock price returned to \$6,094 per share.

The CCAH shares Clifford and Altman purchased were taken from a block of shares that were allocated for a front company known as Mashriq Holding Co.

Within 18 months, Clifford and Altman sold 60 percent of the shares they purchased to another CCAH shareholder for \$6,800 per share, thereby earning a total profit between them of \$9.8 million.

An informed source familiar with the details said that, from Mashriq's point of view, the transaction makes little economic sense.