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Indemnity Ltd. was sentenced in Richmond, Va., to 54 months in prison for his role in an approximately half-billion-dollar fraud scheme that affected more than 3,500 victims throughout the United States and abroad

Dec. 02, 2012

A certified public accountant and purported outside auditor for Provident Capital Indemnity Ltd. (PCI) was sentenced on November 30 in Richmond, Va., to 54 months in prison for his role in an approximately 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.

Jorge Luis Castillo, 57, a resident of New Jersey, was sentenced today by U.S. District Judge John A. Gibney in the Eastern District of Virginia. In addition to his prison term, Castillo was sentenced to three years of supervised release and ordered to pay \$43,582,699 in forfeiture.

Castillo pleaded guilty on Nov. 21, 2011, to one count of conspiring to commit mail and wire fraud. Castillo was a PCI employee prior to becoming PCI's "outside auditor."

"As a licensed accountant, Mr. Castillo used his expertise to create fraudulent financial statements out of whole cloth," said U.S. Attorney MacBride. "Many elderly investors relied on Mr. Castillo's credibility as an outside auditor before entrusting their life savings in this fraud scheme. Accountants and auditors are the gatekeepers of our financial system and are entrusted with the critical role of protecting the public from fraud. Today's sentence will hopefully send a strong message to those in

the accounting profession that they will be held responsible when they break that

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registered in the Commonwealth of Dominica and doing business in Costa Rica. PCI sold financial guarantee bonds to companies selling life settlements, or securities backed by life settlements, to investors. PCI marketed these bonds to its 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.

Castillo admitted that he conspired with Minor Vargas Calvo, 61, the president and majority owner of PCI, to prepare audited financial statements that falsely claimed that PCI had entered into reinsurance contracts with major reinsurance companies. These 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.

Castillo further admitted that he never performed an audit of PCI's financial statements and that, in fact, he personally created the statements he claimed to be independently auditing. He also admitted that he and others at PCI knew that the company never actually entered into reinsurance contracts with any major companies. Castillo also admitted that he and other conspirators provided the false financial statements and fraudulent independent auditors' report to Dun & Bradstreet (D&B), which D&B relied on in compiling its commercial reports on PCI and issuing its 5A rating of PCI's financial strength.

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 allegedly required to make up-front payments of six

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commit mail and wire fraud, and was sentenced on Sept. 6, 2012, to one year of probation.

This investigation is being conducted by the U.S. Postal Inspection Service, Internal Revenue Service – Criminal Investigation, 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 Justice Department 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.

Income Tax

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