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Exclusive: UBS faces criminal probe for Puerto Rico bond fund sales - lawyers

BY EMILY FLITTER
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A man walks past the logo of Swiss Bank UBS on a footbridge connecting two office buildings in Zurich December 19, 2013.

CREDIT: REUTERS/ARND WIEGMANN

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(Reuters) - U.S. authorities are probing UBS AG (UBSN.VX) for criminal fraud after a former broker in Puerto Rico allegedly directed clients to improperly borrow money to buy mutual funds that later plunged, according to lawyers representing some of the

investors.

At issue is whether UBS executives in Puerto Rico and in the United States knew proceeds from loans made by a Utah unit of the Swiss bank were used in a way that violated its own lending rules. If they knew about the practice and did not stop it, they could be criminally responsible for the alleged fraud.

The investigations are the latest headache for UBS, which has faced myriad lawsuits and probes since the financial crisis. Last week, independent analysts estimated that the bank might have to pay \$8 billion in fines and settlements linked to alleged price-manipulation in currency [markets](#).

Puerto Rico-based lawyers Harold Vicente-Gonzalez and his son, Harold Vicente-Colon, said they were representing several dozen people who were clients of UBS Financial Services Inc.

They said the investors lost large portions of their savings through investments in closed-end funds whose sales by UBS have been the subject of several investor lawsuits and regulatory probes. Packed with Puerto Rican government [bonds](#) that UBS had underwritten, the funds plunged in value at the end of last summer as concerns grew about the weak state of the U.S. territory's [economy](#) and its ability to repay its debt.

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Karina Byrne, a New York-based spokeswoman for UBS, said the bank had fired the broker, Jose Ramirez, last year and conducted an internal investigation.

She said the bank had disclosed in quarterly reports the existence of regulatory investigations triggered by the bond funds' decline in value. Byrne declined to comment further about the issues that led to the criminal investigation.

The Vicentes said FBI agents had interviewed several of their clients and that the U.S. Securities and Exchange Commission was also involved in the investigation.

The probe centers on non-purpose loans from UBS Bank USA of Utah that were arranged by Ramirez for his clients. Because these loans are backed by a borrower's investment portfolio, their proceeds cannot, according to their terms and conditions, ever be used to buy securities since changes to the portfolio could devalue the collateral.

But Ramirez was using the non-purpose loans he got for his clients to buy more shares for them in the bond funds, according to attorneys for the investors.

Ramirez's lawyer in San Juan said his client would not comment.

FBI and SEC spokesmen declined to comment.

According to the Vicentes and Jeffrey Erez, who is representing another 130 UBS clients, Ramirez gave clients paperwork that made them think they were borrowing from the bank in Puerto Rico rather than the one in Utah.

Ramirez told his clients to put the proceeds of their loans into accounts at an unrelated local bank and then to write him checks for the loan amounts, which he then used to buy more bond fund shares for them.

There was another problem with the loans: Puerto Rico's Office of the Financial Institutions Commissioner had never issued UBS Bank a license to lend on the island. After the regulator learned of the situation, UBS agreed to sell the loans to its Puerto Rico brokerage without admitting or denying any wrongdoing.

UBS transferred the entire loan portfolio from its Utah bank to its Puerto Rico business at the end of December, Byrne said.

During the transfer, Erez and the Vicentes said, UBS asked clients to sign statements that they would not use the loan proceeds to purchase securities. Since they had already done so, many refused to sign the papers and had to immediately repay the loans by selling off their shares of the bond funds at a loss.

40 PERCENT DECLINES

Hundreds of wealthy Puerto Rican investors, including clients of UBS and other brokerages, have lost much of their life savings by investing in local closed-end funds that owned the island's debt. The funds typically invested at least 67 percent of their money in Puerto Rico assets, which under local law allowed them to offer income tax-free to island residents.

The net worth of these funds fell nearly 40 percent over the course of 2013, according to a report by the Office of the Financial Institutions Commissioner.

So far, about 200 people on the island have filed cases with the Financial Industry Regulatory Authority against UBS and other brokers to try to recover their money, data from the Wall Street self-regulator shows.

Financial Institutions Commissioner Rafael Blanco Latorre said on Thursday that his office was winding up an investigation into whether the funds were suitable for the clients who bought them, and would release the results in the next month or so.

(Reporting by Emily Flitter in New York, Additional reporting by Reuters in San Juan; Editing by Dan Wilchins and Lisa Von Ahn)

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