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Banks Financing Mexico Gangs Admitted in Wells Fargo Deal

By Michael Smith - Jun 29, 2010



A U.S. Customs and Border Protection agent inspects a vehicle heading into the U.S. at the San Ysidro border crossing in San Diego. Photographer: Scott Dalton/Bloomberg Markets via Bloomberg



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June 29 (Bloomberg) -- Wells Fargo & Co., which bought Wachovia Corp. in 2008, has admitted in court that its unit failed to monitor and report suspected money laundering by narcotics traffickers. Bloomberg's Erik Schatzker reports. (Source: Bloomberg)



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June 29 (Bloomberg) -- Bloomberg Markets Magazine senior writer Michael Smith discusses the use of Wachovia Corp., Bank of America Corp. and others by Mexican drug cartels to launder funds. In the magazine's August 2010 issue, Smith reports that Wells Fargo & Co., which bought Wachovia in 2008, admitted in court that its unit failed to monitor and report suspected money laundering by narcotics traffickers. Smith speaks with Betty Liu on Bloomberg Television's "In the Loop." (Source: Bloomberg)



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June 29 (Bloomberg) -- Martin Woods, former director of Wachovia Corp.'s anti-money-laundering unit in London, talks with Bloomberg's Julie Hyman and Mark Crumpton about the use of Wachovia Corp. and others by Mexican drug cartels to launder funds. Bloomberg Markets Magazine senior writer Michael Smith reports in the magazine's August 2010 issue that Wells Fargo & Co., which bought Wachovia in 2008, admitted in court that its unit failed to monitor and report suspected money laundering by narcotics traffickers. (Source: Bloomberg)



A U.S. Customs and Border Protection agent inspects a vehicle heading into Mexico at the San Ysidro border crossing in San Diego. Photographer: Scott Dalton/Bloomberg Markets via Bloomberg



A marker shows where the international border lies between San Diego, California and Tijuana, Mexico. Photographer: Scott Dalton/Bloomberg Markets via Bloomberg



Mexican President Felipe Calderon vowed to crush the drug cartels when he took office in December 2006. Photographer: Tim Sloan/AFP/Getty Images

Just before sunset on April 10, 2006, a DC-9 jet landed at the international airport in the port city of Ciudad del Carmen, 500 miles east of Mexico City. As soldiers on the ground approached the plane, the crew tried to shoo them away, saying there was a dangerous oil leak. So the troops grew suspicious and searched the jet.

They found 128 black suitcases, packed with 5.7 tons of cocaine, valued at \$100 million. The stash was supposed to have been delivered from Caracas to drug traffickers in Toluca, near Mexico City, Mexican prosecutors later found. Law enforcement officials also discovered something else.

The smugglers had bought the DC-9 with laundered funds they transferred through two of the biggest banks in the U.S.: [Wachovia Corp.](#) and [Bank of America Corp.](#), Bloomberg Markets magazine reports in its August 2010 issue.

This was no isolated incident. Wachovia, it turns out, had made a habit of helping move money for Mexican drug smugglers. [Wells Fargo & Co.](#), which bought Wachovia in 2008, has admitted in court that its unit failed to monitor and report suspected money laundering by narcotics traffickers -- including the cash used to buy four planes that shipped a total of 22 tons of cocaine.

The admission came in an agreement that Charlotte, North Carolina-based Wachovia struck with federal prosecutors in March, and it sheds light on the largely undocumented role of U.S. banks in contributing to the violent drug trade that has convulsed Mexico for the past four years.

‘Blatant Disregard’

Wachovia admitted it didn’t do enough to spot illicit funds in handling [\\$378.4 billion](#) for Mexican -currency-exchange houses from 2004 to 2007. That’s the largest violation of the Bank Secrecy

Act, an anti-money-laundering law, in U.S. history -- a sum equal to one-third of Mexico's current [gross domestic product](#).

“Wachovia's blatant disregard for our banking laws gave international cocaine cartels a virtual carte blanche to finance their operations,” says [Jeffrey Sloman](#), the federal prosecutor who handled the case.

Since 2006, more than 22,000 people have been killed in drug-related battles that have raged mostly along the 2,000-mile (3,200-kilometer) border that Mexico shares with the U.S. In the Mexican city of Ciudad Juarez, just across the border from El Paso, Texas, 700 people had been murdered this year as of mid- June. Six Juarez police officers were slaughtered by automatic weapons fire in a midday ambush in April.

Rondolfo Torre, the leading candidate for governor in the Mexican border state of Tamaulipas, was gunned down yesterday, less than a week before elections in which violence related to drug trafficking was a central issue.

45,000 Troops

Mexican President [Felipe Calderon](#) vowed to crush the drug cartels when he took office in December 2006, and he's since deployed 45,000 troops to fight the cartels. They've had little success.

Among the dead are police, soldiers, journalists and ordinary citizens. The U.S. has pledged Mexico \$1.1 billion in the past two years to aid in the fight against narcotics cartels.

In May, President [Barack Obama](#) said he'd send 1,200 National Guard troops, adding to the 17,400 agents on the U.S. side of the border to help stem drug traffic and illegal immigration.

Behind the carnage in Mexico is an industry that supplies hundreds of tons of cocaine, heroin, marijuana and methamphetamines to Americans. The cartels have built a network of dealers in 231 U.S. cities from coast to coast, taking in about \$39 billion in sales annually, according to the Justice Department.

'You're Missing the Point'

Twenty million people in the U.S. regularly use illegal drugs, spurring street crime and wrecking families. Narcotics cost the U.S. economy [\\$215 billion](#) a year -- enough to cover health care for 30.9 million Americans -- in overburdened courts, prisons and hospitals and lost productivity, the department says.

“It's the banks laundering money for the cartels that finances the tragedy,” says Martin Woods, director of Wachovia's anti-money-laundering unit in London from 2006 to 2009. Woods says he quit the bank in disgust after executives ignored his documentation that drug dealers were funneling money through Wachovia's branch network.

“If you don't see the correlation between the money laundering by banks and the 22,000 people killed in Mexico, you're missing the point,” Woods says.

Cleansing Dirty Cash

Wachovia is just one of the U.S. and European banks that have been used for drug money laundering. For the past two decades, Latin American drug traffickers have gone to U.S. banks to cleanse their dirty cash, says Paul Campo, head of the U.S. Drug Enforcement Administration's financial crimes unit.

Miami-based American Express Bank International [paid fines](#) in both 1994 and 2007 after admitting it had failed to spot and report drug dealers laundering money through its accounts. Drug traffickers used accounts at [Bank of America](#) in Oklahoma City to buy three planes that carried 10 tons of cocaine, according to Mexican court filings.

Federal agents caught people who work for Mexican cartels depositing illicit funds in Bank of America accounts in Atlanta, Chicago and Brownsville, Texas, from 2002 to 2009. Mexican drug dealers used shell companies to open accounts at London-based [HSBC Holdings Plc](#), Europe's biggest bank by assets, an investigation by the Mexican Finance Ministry found.

Following Rules

Those two banks weren't accused of wrongdoing. Bank of America spokeswoman [Shirley Norton](#) and HSBC spokesman Roy Caple say laws bar them from discussing specific clients. They say their banks strictly follow the government rules.

"Bank of America takes its anti-money-laundering responsibilities very seriously," Norton says.

A Mexican judge on Jan. 22 accused the owners of six centros cambiarios, or money changers, in Culiacan and Tijuana of laundering drug funds through their accounts at the Mexican units of [Banco Santander SA](#), [Citigroup Inc.](#) and HSBC, according to court documents filed in the case.

The money changers are in jail while being tried. Citigroup, HSBC and Santander, which is the largest Spanish bank by assets, weren't accused of any wrongdoing. The three banks say Mexican law bars them from commenting on the case, adding that they each carefully enforce anti-money-laundering programs.

HSBC has stopped accepting dollar deposits in Mexico, and Citigroup no longer allows noncustomers to change dollars there. Citigroup detected suspicious activity in the Tijuana accounts, reported it to regulators and closed the accounts, Citigroup spokesman [Paulo Carreno](#) says.

Criminal Empires

On June 15, the [Mexican Finance Ministry](#) announced it would set limits for banks on cash deposits in dollars.

Mexico's drug cartels have become multinational criminal enterprises.

Some of the gangs have delved into other illegal activities such as gunrunning, kidnapping and smuggling people across the border, as well as into seemingly legitimate areas such as trucking, travel services and air cargo transport, according to the Justice Department's [National Drug Intelligence Center](#).

These criminal empires have no choice but to use the global banking system to finance their businesses, Mexican Senator Felipe Gonzalez says.

"With so much cash, the only way to move this money is through the banks," says Gonzalez, who represents a central Mexican state and chairs the senate public safety committee.

Gonzalez, a member of Calderon's National Action Party, carries a .38 revolver for personal protection.

"I know this won't stop the narcos when they come through that door with machine guns," he says, pointing to the entrance to his office. "But at least I'll take one with me."

Subprime Losses

No bank has been more closely connected with Mexican money laundering than Wachovia. Founded in 1879, Wachovia became the largest bank by assets in the southeastern U.S. by 1900. After the Great Depression, some people in North Carolina called the bank “Walk-Over-Ya” because it had foreclosed on farms in the region.

By 2008, Wachovia was the sixth-largest U.S. lender, and it faced \$26 billion in losses from subprime mortgage loans. That cost Wachovia Chief Executive Officer [Kennedy Thompson](#) his job in June 2008.

Six months later, San Francisco-based Wells Fargo, which dates from 1852, bought Wachovia for \$12.7 billion, creating the largest network of bank branches in the U.S. Thompson, who now works for private-equity firm Aquiline Capital Partners LLC in New York, declined to comment.

As Wachovia’s balance sheet was bleeding, its legal woes were mounting. In the three years leading up to Wachovia’s agreement with the Justice Department, grand juries served the bank with [6,700 subpoenas](#) requesting information.

Not Quick Enough

The bank didn’t react quickly enough to the prosecutors’ requests and failed to hire enough investigators, the U.S. Treasury Department said in March. After a 22-month investigation, the Justice [Department on March 12](#) charged Wachovia with violating the Bank Secrecy Act by failing to run an effective anti-money-laundering program.

Five days later, Wells Fargo promised in a Miami federal courtroom to revamp its detection systems. Wachovia’s new owner paid \$160 million in fines and penalties, less than 2 percent of its \$12.3 billion profit in 2009.

If Wells Fargo keeps its pledge, the U.S. government will, according to the agreement, drop all charges against the bank in March 2011.

Wells Fargo regrets that some of Wachovia’s former anti- money-laundering efforts fell short, spokeswoman [Mary Eshet](#) says. Wells Fargo has invested \$42 million in the past three years to improve its anti-money-laundering program and has been working with regulators, she says.

‘Significantly Upgraded’

“We have substantially increased the caliber and number of staff in our international investigations group, and we also significantly upgraded the monitoring software,” Eshet says. The agreement bars the bank from contesting or contradicting the facts in its admission.

The bank declined to answer specific questions, including how much it made by handling \$378.4 billion -- including \$4 billion of cash-from Mexican exchange companies.

The [1970 Bank Secrecy Act](#) requires banks to report all cash transactions above \$10,000 to regulators and to tell the government about other suspected money-laundering activity. Big banks employ hundreds of investigators and spend millions of dollars on software programs to scour accounts.

No big U.S. bank -- Wells Fargo included -- has ever been indicted for violating the Bank Secrecy Act or any other federal law. Instead, the Justice Department settles criminal charges by using [deferred-prosecution agreements](#), in which a bank pays a fine and promises not to break the law again.

'No Capacity to Regulate'

Large banks are protected from indictments by a variant of the too-big-to-fail theory.

Indicting a big bank could trigger a mad dash by investors to dump shares and cause panic in financial markets, says Jack Blum, a U.S. Senate investigator for 14 years and a consultant to international banks and brokerage firms on money laundering.

The theory is like a get-out-of-jail-free card for big banks, Blum says.

"There's no capacity to regulate or punish them because they're too big to be threatened with failure," Blum says. "They seem to be willing to do anything that improves their bottom line, until they're caught."

Wachovia's run-in with federal prosecutors hasn't troubled investors. [Wells Fargo's stock](#) traded at \$30.86 on March 24, up 1 percent in the week after the March 17 agreement was announced.

Moving money is central to the drug trade -- from the cash that people tape to their bodies as they cross the U.S.-Mexican border to the \$100,000 wire transfers they send from Mexican exchange houses to big U.S. banks.

'Doesn't Stop Anyone'

In Tijuana, 15 miles south of San Diego, Gustavo Rojas has lived for a quarter of a century in a shack in the shadow of the 10-foot-high (3-meter-high) steel border fence that separates the U.S. and Mexico there. He points to holes burrowed under the barrier.

"They go across with drugs and come back with cash," Rojas, 75, says. "This fence doesn't stop anyone."

Drug money moves back and forth across the border in an endless cycle. In the U.S., couriers take the cash from drug sales to Mexico -- as much as [\\$29 billion a year](#), according to U.S. Immigration and Customs Enforcement. That would be about 319 tons of \$100 bills.

They hide it in cars and trucks to smuggle into Mexico. There, cartels pay people to deposit some of the cash into Mexican banks and branches of international banks. The narcos launder much of what's left through money changers.

The Money Changers

Anyone who has been to Mexico is familiar with these street-corner money changers; Mexican regulators say there are at least 3,000 of them from Tijuana to Cancun, usually displaying large signs advertising the day's dollar-peso exchange rate.

Mexican banks are regulated by the [National Banking and Securities Commission](#), which has an anti-money-laundering unit; the money changers are policed by Mexico's Tax Service Administration, which has no such unit.

By law, the money changers have to demand identification from anyone exchanging more than \$500. They also have to report transactions higher than \$5,000 to regulators.

The cartels get around these requirements by employing legions of individuals -- including relatives, maids and gardeners -- to convert small amounts of dollars into pesos or to make deposits in local banks. After that, cartels wire the money to a multinational bank.

The Smurfs

The people making the small money exchanges are known as Smurfs, after the cartoon characters.

“They can use an army of people like Smurfs and go through \$1 million before lunchtime,” says Jerry Robinette, who oversees U.S. Immigration and Customs Enforcement operations along the border in east Texas.

The U.S. Treasury has been warning banks about big Mexican- currency-exchange firms laundering drug money since 1996. By 2004, many U.S. banks had closed their accounts with these companies, which are known as casas de cambio.

Wachovia ignored warnings by regulators and police, according to the deferred-prosecution agreement.

“As early as 2004, Wachovia understood the risk,” the bank admitted in court. “Despite these warnings, Wachovia remained in the business.”

One customer that Wachovia took on in 2004 was Casa de Cambio Puebla SA, a Puebla, Mexico-based currency-exchange company. Pedro Alatorre, who ran a Puebla branch in Mexico City, had created front companies for cartels, according to a pending Mexican criminal case against him.

Federal Indictment

A federal grand jury in Miami indicted Puebla, Alatorre and three other executives in February 2008 for drug trafficking and money laundering. In May 2008, the Justice Department sought extradition of the suspects, saying they used shell firms to launder \$720 million through U.S. banks.

Alatorre has been in a Mexican jail for 2 1/2 years. He denies any wrongdoing, his lawyer Mauricio Moreno says. Alatorre has made no court-filed responses in the U.S.

During the period in which Wachovia admitted to moving money out of Mexico for Puebla, couriers carrying clear plastic bags stuffed with cash went to the branch Alatorre ran at the Mexico City airport, according to surveillance reports by Mexican police.

Alatorre opened accounts at HSBC on behalf of front companies, Mexican investigators found.

Puebla executives used the stolen identities of 74 people to launder money through Wachovia accounts, Mexican prosecutors say in court-filed reports.

‘Never Reported’

“Wachovia handled all the transfers, and they never reported any as suspicious,” says Jose Luis Marmolejo, a former head of the Mexican attorney general’s financial crimes unit who is now in private practice.

In November 2005 and January 2006, Wachovia transferred a total of \$300,000 from Puebla to a Bank of America account in Oklahoma City, according to information in the Alatorre cases in the U.S. and Mexico.

Drug smugglers used the funds to buy the DC-9 through Oklahoma City aircraft broker U.S. Aircraft Titles Inc., according to financial records cited in the Mexican criminal case. U.S. Aircraft Titles President Sue White declined to comment.

On April 5, 2006, a pilot flew the plane from St. Petersburg, Florida, to Caracas to pick up the cocaine, according to the DEA. Five days later, troops seized the plane in Ciudad del Carmen and burned the drugs at a nearby army base.

'Wachovia Knew'

"I am sure Wachovia knew what was going on," says Marmolejo, who oversaw the criminal investigation into Wachovia's customers. "It went on too long and they made too much money not to have known."

At Wachovia's anti-money-laundering unit in London, Woods and his colleague Jim DeFazio, in Charlotte, say they suspected that drug dealers were using the bank to move funds.

Woods, a former Scotland Yard investigator, spotted illegible signatures and other suspicious markings on traveler's checks from Mexican exchange companies, he said in a September 2008 letter to the U.K. [Financial Services Authority](#). He sent copies of the letter to the DEA and Treasury Department in the U.S.

Woods, 45, says his bosses instructed him to keep quiet and tried to have him fired, according to his letter to the FSA. In one meeting, a bank official insisted Woods shouldn't have filed suspicious activity reports to the government, as both U.S. and U.K. laws require.

'I Was Shocked'

"I was shocked by the content and outcome of the meeting and genuinely traumatized," Woods wrote.

In the U.S., DeFazio, who had been a Federal Bureau of Investigation agent for 21 years, says he told bank executives in 2005 that the DEA was probing the transfers through Wachovia to buy the planes.

Bank executives spurned recommendations to close suspicious accounts, DeFazio, 63, says.

"I think they looked at the money and said, 'The hell with it. We're going to bring it in, and look at all the money we'll make,'" DeFazio says.

DeFazio retired in 2008.

"I didn't want anything from them," he says. "I just wanted to get out."

Woods, who resigned from Wachovia in May 2009, now advises banks on how to combat money laundering. He declined to discuss details of Wachovia's actions.

U.S. Comptroller of the Currency [John Dugan](#) told Woods in a March 19 letter his efforts had helped the U.S. build its case against Wachovia.

'Great Courage'

"You demonstrated great courage and integrity by speaking up when you saw problems," Dugan wrote.

It was the Puebla investigation that led U.S. authorities to the broader probe of Wachovia. On May 16, 2007, DEA agents conducted a raid of Wachovia's international banking offices in Miami. They had a court order to seize Puebla's accounts.

U.S. prosecutors and investigators then scrutinized the bank's dealings with Mexican-currency-exchange firms. That led to the March deferred-prosecution agreement.

With Puebla's Wachovia accounts seized, Alatorre and his partners shifted their laundering scheme to HSBC, according to financial documents cited in the Mexican criminal case against Alatorre.

In the three weeks after the DEA raided Wachovia, two of Alatorre's front companies, Grupo ETPB SA and Grupo Rahero SC, made 12 cash deposits totaling \$1 million at an HSBC Mexican branch, Mexican investigators found.

Another Drug Plane

The funds financed a Beechcraft King Air 200 plane that police seized on Dec. 29, 2007, in Cuernavaca, 50 miles south of Mexico City, according to information in the case against Alatorre.

For years, federal authorities watched as the wife and daughter of Oscar Oropeza, a drug smuggler working for the Matamoros-based Gulf Cartel, deposited stacks of cash at a Bank of America branch on Boca Chica Boulevard in Brownsville, Texas, less than 3 miles from the border.

Investigator Robinette sits in his pickup truck across the street from that branch. It's a one-story, tan stucco building next to a Kentucky Fried Chicken outlet. Robinette discusses the Oropeza case with Tom Salazar, an agent who investigated the family.

"Everybody in there knew who they were -- the tellers, everyone," Salazar says. "The bank never came to us, though."

New Meaning

The Oropeza case gives a new, literal meaning to the term money laundering. Oropeza's wife, Tina Marie, and daughter Paulina Marie deposited stashes of \$20 bills several times a day into Bank of America accounts, Salazar says. Bank employees got to know the Oropezas by the smell of their money.

"I asked the tellers what they were talking about, and they said the money had this sweet smell like Bounce, those sheets you throw into the dryer," Salazar says. "They told me that when they opened the vault, the smell of Bounce just poured out."

Oropeza, 48, was arrested 820 miles from Brownsville. On May 31, 2007, police in Saraland, Alabama, stopped him on a traffic violation. Checking his record, they learned of the investigation in Texas.

They searched the van and discovered 84 kilograms (185 pounds) of cocaine hidden under a false floor. That allowed federal agents to freeze Oropeza's bank accounts and search his marble-floored home in Brownsville, Robinette says. Inside, investigators found a supply of Bounce alongside the clothes dryer.

Guilty Pleas

All three Oropezas pleaded guilty in U.S. District Court in Brownsville to drug and money-laundering charges in March and April 2008. Oscar Oropeza was sentenced to 15 years in prison; his wife was ordered to serve 10 months and his daughter got 6 months.

Bank of America's Norton says, "We not only fulfilled our regulatory obligation, but we proactively worked with law enforcement on these matters."

Prosecutors have tried to halt money laundering at American Express Bank International twice. In 1994, the bank, then a subsidiary of New York-based [American Express Co.](#), pledged not to allow

money laundering again after two employees were convicted in a criminal case involving drug trafficker Juan Garcia Abrego.

In 1994, the bank paid \$14 million to settle. Five years later, drug money again flowed through American Express Bank. Between 1999 and 2004, the bank failed to stop clients from laundering \$55 million of narcotics funds, the bank admitted in a deferred-prosecution agreement in August 2007.

Western Union

It paid \$65 million to the U.S. and promised not to break the law again. The government dismissed the criminal charge a year later. American Express sold the bank to London-based [Standard Chartered PLC](#) in February 2008 for \$823 million.

Banks aren't the only financial institutions that have turned a blind eye to drug cartels in moving illicit funds. [Western Union Co.](#), the world's largest money transfer firm, agreed to pay [\\$94 million](#) in February 2010 to settle civil and criminal investigations by the Arizona attorney general's office.

Undercover state police posing as drug dealers bribed Western Union employees to illegally transfer money, says Cameron Holmes, an assistant attorney general.

"Their allegiance was to the smugglers," Holmes says. "What they thought about during work was 'How may I please my highest-spending customers the most?'"

Smudged Fingerprints

Workers in more than 20 Western Union offices allowed the customers to use multiple names, pass fictitious identifications and smudge their fingerprints on documents, investigators say in court records.

"In all the time we did undercover operations, we never once had a bribe turned down," says Holmes, citing court affidavits.

Western Union has made significant improvements, it complies with anti-money-laundering laws and works closely with regulators and police, spokesman [Tom Fitzgerald](#) says.

For four years, Mexican authorities have been fighting a losing battle against the cartels. The police are often two steps behind the criminals. Near the southeastern corner of Texas, in Matamoros, more than 50 combat troops surround a police station.

Officers take two suspected drug traffickers inside for questioning. Nearby, two young men wearing white T-shirts and baggy pants watch and whisper into radios. These are los halcones (the falcons), whose job is to let the cartel bosses know what the police are doing.

'Only Way'

While the police are outmaneuvered and outgunned, ordinary Mexicans live in fear. Rojas, the man who lives in the Tijuana slum near the border fence, recalls cowering in his home as smugglers shot it out with the police.

"The only way to survive is to stay out of the way and hope the violence, the bullets, don't come for you," Rojas says.

To make their criminal enterprises work, the drug cartels of Mexico need to move billions of dollars across borders. That's how they finance the purchase of drugs, planes, weapons and safe houses, Senator Gonzalez says.

"They are multinational businesses, after all," says Gonzalez, as he slowly loads his revolver at his desk in his Mexico City office. "And they cannot work without a bank."

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