

The United States Attorney's Office

Southern District of Florida

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Press Release

**FORMER COMPANY EXECUTIVE PLEADS GUILTY TO \$956 MILLION SECURITIES FRAUD SCHEME**

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October 23, 2006

**FOR IMMEDIATE RELEASE**

R. Alexander Acosta, United States Attorney for the Southern District of Florida, and Jonathan I. Solomon, Special Agent in Charge, Federal Bureau of Investigation ("FBI"), announced today that defendant **Peter Lombardi**, a founding partner and sole shareholder of Mutual Benefits Corp. ("MBC"), pled guilty to a widespread securities fraud scheme, in which more than 28,000 investors have lost approximately \$956 million. The defendant was charged by Information with securities fraud, in violation of 15 U.S.C. §§ 78j(b) and 78ff(a), 17 C.F.R. § 240.10b-5, and 18 U.S.C. § 2.

At sentencing, **Lombardi** faces a statutory maximum prison sentence of 20 years and a fine of up to \$5 million. As part of his plea, Lombardi has agreed to be responsible for \$956 million in restitution to the investors who were victims of this fraud.

According to the Information and statements made today in court proceedings, from October 1994 through approximately May 2004, **Lombardi** and principals of MBC, a business principally located in the Southern District of Florida, orchestrated the fraudulent sale of investment interests in insurance policies called viatical and life settlements to the general public, resulting in approximately \$956 million of losses to 28,000 investors worldwide.

A viatical settlement is a transaction in which a terminally ill person sells the death benefit of his or her life insurance policy to a third party in return for a lump-sum cash payment, which is a discounted percentage of the policy's face value. A life settlement is a transaction which is identical to a viatical settlement, except the seller of the insurance death benefit is not terminal, but instead is a senior citizen. In the sale of viatical or life settlements, an investor would realize a profit if, when the insured dies and the policy matures, the policy benefit is more than the price paid for policy. Any profit realized would be decreased by additional out-of-pocket costs, such as premium payments.

As charged in the Information, **Lombardi** and other MBC principals directed an international network of sales agents and marketing directors who fraudulently induced investors to purchase interests in the viatical and life settlements through a series of misrepresentations concerning the safety and security of the investments.

For example, MBC's investors were falsely assured that the majority of viatical and life settlements sold by MBC matured within the life expectancy assigned by MBC. As a result, MBC promised investors returns as much 72% on their investment. In reality, most investors have never realized any profit and have not been able to get their investment back, since approximately 80% of the viatical and life settlements sold by MBC never

matured, and only about 5% matured within the MBC predicted life expectancy.

MBC also misled investors by promising to escrow enough money to pay for anticipated insurance premiums during the life expectancy of the insured. To sustain the insurance policies as viable investments, sufficient monies need to be set aside to pay expected premiums. However, given the fraudulently low life expectancies assigned by MBC, and the repeated failure of the policies to mature, the amount of funds escrowed to pay the premium costs was insufficient.

To compensate for the insufficient premium reserves, **Lombardi** and the other MBC principals pooled the premium funds held in accounts to create an unsustainable "Ponzi" scheme. MBC used premium monies obtained from recently sold viatical and life settlements to pay premium obligations on older policies that failed to mature within the represented life expectancy.

The investing public was also misled about the identity of MBC's management. While **Lombardi** was installed by his accomplices as the titular President of MBC, the true controlling principal of MBC was an individual who had been previously convicted of federal mail and wire fraud, and two principals were enjoined by a United States District Court from committing further violations of the anti-fraud provisions of the federal securities laws. As also alleged in the Information, MBC principals misappropriated investor funds for their own use.

United States Attorney Alex Acosta stated, "Honesty and integrity in business are essential for a strong America. Investors and retirees deserve nothing less. Criminal acts of corporate and securities fraud must be answered with criminal prosecutions. That is precisely what we have done today, and that is precisely what we will continue to do, working with our colleagues at the FBI and the SEC."

FBI Special Agent in Charge Solomon stated, "Peter Lombardi and other MBC executives preyed on investors' compassion for others while they sought only personal gain. Securities fraud cases have an impact on so many people, and in this case, the effects were felt worldwide. The FBI is resolute that securities fraud cases will remain a top priority in our white collar crime program.

Mr. Acosta commended the investigative efforts of the FBI and the Southeast Regional Office of the Securities and Exchange Commission. The matter is being handled by Assistant United States Attorney Andrew K. Levi and Special Assistant United States Attorney Ryan Dwight O'Quinn.

Attachments:

[Information](#) (PDF)

[Plea Agreement](#) (PDF)

A copy of this press release may be found on the website of the United States Attorney's Office for the Southern District of Florida at <http://www.usdoj.gov/usao/fls>. Related court documents and information may be found on the website of the District Court for the Southern District of Florida at <http://www.flsd.uscourts.gov> or on <http://pacer.flsd.uscourts.gov>.

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