

US plaintiffs demand Lebanese banks pay \$150M for denying transfer

BEIRUT: A Lebanese-American couple filed lawsuits in New York against three Lebanese banks and the Central Bank for allegedly refusing to transfer their \$18 million deposits abroad.

The plaintiffs demanded the three banks to pay \$150 million in damages to the two couples which also cover the lawyers' fees.

“Plaintiffs Joseph A. Daou and Karen M. Daou are married United States citizens who deposited hard earned United States dollars (“USD”) in three Lebanese banks, only to be preyed upon by the Ponzi scheme that is the Lebanese banking system,” the United States District Court Southern District Court of New York said in the document filed in June 10, 2020.

The three banks involved in the case are Credit Libanais, BLC Bank and Al Mawarid Bank in addition to the Central Bank.

The couple accused the Central Bank of running a Ponzi scheme by allegedly cooperating with the three banks.

Neither the Central Bank, nor the three banks were available to comment on this case.

Commenting about the court order, Paul Morcos, a renowned legal consultant, said there was no solid ground for the case so far.

“This case may go motion to dismiss and from there we will find out how it will develop. This case may pose a pressure on the banks although there is no guarantee that the plaintiffs will win the case against these banks,” Morcos told The Daily Star.

He added that the government is working on the capital control law which will be an important step to limit the outflow and withdrawals of hard currencies from Lebanese banks.

Morcos warned, however, that the pressure on the banks may mount if the case moved to class action and this will be a bad news for the lenders.

A class action, also known as a class action lawsuit, class suit, or representative action, is a type of lawsuit where one of the parties is a group of people who are represented collectively by a member of that group.

Morcos underlined the importance of speeding up the approval of the money control law to avoid such cases in the future.

But most if not all banks are applying strict capital controls to preserve the dwindling dollar deposits after the massive withdrawals of dollar banknotes since August 2019.

It is not clear whether the couple has a chance to win the case or force the three banks to release their money due to the delicate situation of the banks.

The IMF has pressed the government and the Parliament to pass a capital control bill and turn it into law in order to reduce the transfer of funds outside Lebanon.

The US court accused the Central Bank of colluding with the three banks.

“Defendant Banque Du Liban (“BDL”) is the Central Bank of Lebanon and the architect of the Ponzi scheme. In the 1990s, as Lebanon emerged from its devastating 15-year Civil War, a dual currency system formed with the USD and Lebanese Lira (the “Lira”) both being used widely. The two currencies were not pegged, however, causing massive swings in the exchange rate and chaos in the Lebanese economy,” the court said.

The court claimed that in an attempt to solve the problem, the then and current BDL Governor, Riad Salameh, engineered the pegging of the exchange rate at 1507.51515 Lira to \$1 USD.

“To support the artificial pegging of the exchange rate, BDL and the Lebanese government sought to encourage foreign currency investment, particularly USD, which ultimately became the dominant deposit currency in Lebanon,” it added.

The court explained that BLC Bank, CL Bank, and AM Bank promised Plaintiffs high interest rates on Plaintiffs’ USD deposits to induce Plaintiffs to make the deposits, even though the banks knew their scheme was unsustainable.

“To amass USD deposits and to effectuate USD transactions, including for Plaintiffs, BLC Bank, CL Bank, and AM Bank all maintain correspondent bank accounts in New York at large United States banks,” the court said.

It added that the couple asked the three banks to readily transfer their USD from Lebanon to their accounts in the United States so they could conduct business and execute on investments.

“In 2019, Plaintiffs specifically advised all three banks that they needed to transfer their USD to satisfy Plaintiffs’ funding obligations for three highly valuable real estate acquisitions in the United States. Therefore, Plaintiffs agreed with BLC Bank, CL Bank and AM Bank that Plaintiffs’ accounts would have short-term maturity dates of one month, and the banks would pay Plaintiffs interest averaging approximately ten percent,” the document said.

It added that BLC Bank, CL Bank and AM Bank all knew that the couple intended to transfer their USD to the United States.

“ However, unbeknownst to Plaintiffs, BDL, BLC Bank, CL Bank and AM Bank, among other Lebanese banks, had collusively agreed to violate the rights of USD depositors by preventing the depositors from withdrawing their USD or transferring their USD outside Lebanon,” the document said.

It added that by the end of 2019, the couple had more than \$18 million on deposit across their bank accounts in Lebanon.

The court said that BLC Bank, CL Bank and AM Bank then asked for additional time to execute the wire transfers, and they repeatedly assured Plaintiffs the wire transfers had been approved and would be forthcoming.

The court added that BLC Bank, CL Bank and AM Bank had no intention of permitting Plaintiffs to transfer their USD outside Lebanon. Rather, the banks were stalling while they unlawfully misappropriated Plaintiffs' USD.

The couple claimed "BDL and the banks utilized their own debtor-creditor relationship to coerce Plaintiff to accept illusory checks BDL and the banks would never honor in lieu of the wire transfers Plaintiffs requested and to which Plaintiffs were entitled."

The total compensatory and exemplary damages Plaintiffs seek in this action exceed \$150 million.

<http://www.dailystar.com.lb/Business/Local/2020/Jun-11/507315-us-court-orders-lebanese-banks-to-pay-150m-for-denying-transfer.ashx>