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GE Capital Pays $49 Million Over Petters Ponzi Scheme

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By Andrew Scurria

General Electric Co.'s finance unit agreed to pay $49 million to settle allegations it covered up the $2 billion Ponzi scheme perpetrated by convicted fraudster Thomas Petters.

General Electric Capital Corp. reached the deal with a bankruptcy trustee who is digging up money for investors in two Florida hedge funds that lost $650 million when the Ponzi scheme collapsed in 2008, according to court papers entered Tuesday in the U.S. District Court in West Palm Beach, Fla.

The trustee, Florida accountant Barry Mukamal, had accused GE Capital of conspiring to commit fraud by keeping quiet in 2000 when its employees allegedly discovered Mr. Petters was operating a Ponzi scheme.

The hedge funds, Palm Beach Finance Partners LP and Palm Beach Finance II LP, were the second-largest victims of the fraud. They collapsed in 2009, after the U.S. government exposed Mr. Petters for running the 15-year fraud that earned him a 50-year federal prison sentence in 2010.

Starting in 1998, GE Capital was a lender to businesses controlled by Mr. Petters, financing what he said were purchases of merchandise for resale to Costco Wholesale Corp. , according to court papers. Mr. Mukamal alleged that by 2000, GE Capital had deep misgivings about Mr. Petters and soon discovered its collateral was nonexistent and its credit documents had been forged.

When the lender allegedly discovered the Ponzi scheme, Mr. Mukamal said it struck a deal to be repaid and wrote a recommendation letter that Mr. Petters and his colleagues used to drum up additional investors and keep the Ponzi scheme going.

A GE spokeswoman declined to comment. But the unit fought the lawsuit, arguing Mr. Mukamal didn't have legal standing to pursue the conspiracy claim because the power to do so remained with the bankruptcy trustee for Mr. Petters's bankrupt companies in Minnesota.

A federal judge rejected that argument in 2017, and GE Capital was appealing the ruling up until Tuesday's settlement.

> "Our claim is not to recover for payments made to GE; our claim is that if there is a fraudulent conspiracy, they become liable for the damages," the trustee's lawyer, Michael Budwick of Meland Budwick, P.A., told WSJ Pro Bankruptcy.

The hedge funds already recovered roughly $170 million of what they lost through distributions from the Minnesota bankruptcy proceeding and settlements of other lawsuits brought by Mr. Mukamal.

Mr. Petters, whose business empire once encompassed Polaroid Corp. and Sun Country Airlines, told investors their money would help his companies buy electronic goods, which would then be resold to retail stores.

That money instead was used to fund Mr. Petters's extravagant lifestyle and pay off other investors, creating the illusion of profits. He was convicted of multiple counts of fraud and money laundering in 2009.

—Katy Stech Ferek contributed to this article

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