

The man behind USA Capital

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In the summer of 1987, Tom Hantges and Enrico Rusticali, co-founders of USA Capital, were meeting in a boardroom with executives of Video Publishing Ventures of Englewood, Colo. USA Capital, the Las Vegas mortgage lending company now involved in a massive bankruptcy case, at that time was a stock brokerage.

Video Publishing, which produced cable television programs, wanted to make a public stock offering for \$1.9 million, Rusticali remembers.

"I didn't want to do the deal because it stunk, and it was a bad (stock) market," Rusticali said. Hantges and partner David Berkowitz said they were anxious to underwrite the stock offering, in part because the USA Capital sales force was prepared to pocket commissions from selling the shares to the public.

"Well, it's a piece of garbage," Rusticali recalled telling them.

Hantges asked to talk to Rusticali privately in the restroom. Once there, Hantges looked left and right.

"If you interfere with me providing a livelihood for my family," Rusticali recalls Hantges said, "I'll cut your legs off and bury you in the desert."

Hantges denied that he said that. "That's such a joke," Hantges said. "He's just a bitter ex-employee. I'm not a mobster. I'm a businessman."

Former associates say Hantges can be a charming and persuasive salesman one minute and a bully the next.

Hantges' skills helped make USA Capital the state's biggest hard-money lender, but Hantges' way of doing business also may have led to the firm's collapse. USA Capital became insolvent and filed for Chapter 11 bankruptcy in April, with \$962 million in assets under its control.

USA Capital solicited investments from individuals and used the money to fund short-term mortgage loans, often called trust deeds, which pay double-digit yields. These loans typically are made to developers and require that the borrower provide real estate as collateral.

About 3,600 investors around the country invested in trust deeds originated by USA Capital. Another 3,200 individuals, some of whom also invested directly in the trust deeds, bought units in trust deed funds managed by USA Capital.

Many of USA Capital's trust deed loans are past due, but the company reported to state regulators that all of them were performing. In some cases, borrowers paid off the loans, but USA kept the money rather than returning it to investors. Hantges and partner Joe Milanowski were borrowers in many cases, a fact that was disclosed at least in some instances to investors.

Investors now fear they may lose some of their money.

A federal lawsuit filed in 2001 provides a sort of case study for USA Capital operations - but only if the plaintiffs are truthful, and Hantges' attorneys claim the lawsuit contains many falsehoods.

The lawsuit describes a series of broken promises, false and misleading statements and threats that the plaintiffs claim Hantges, Milanowski and others used to get control of a home building company, American Communities.

American began obtaining investor-financed loans from USA Capital in 1997, according to the lawsuit.

In December 1998, Hantges, a director of Inco Homes, suggested American and Inco merge, the

lawsuit contended. Hantges' attorneys denied the allegation.

Milanowski prepared financial documents that indicated Inco was in good shape, but American later learned shares of Inco had been delisted by Nasdaq, according to the lawsuit. Also, American learned that Inco had deficit net worth and was losing \$300,000 a month in Southern California.

In June 1999, the merger was terminated. However, based on anticipated benefits of the merger, American already had purchased 800 home lots in three Las Vegas communities and American borrowed a total of \$12 million for purchase and development of the lots, the lawsuit contended. Attorneys at Jimmerson Hansen, who represent Hantges, denied the statement.

USA offered American a \$5 million working capital loan for 15 percent interest. But very shortly before the scheduled closing, claims the lawsuit, USA capital jacked up the interest rate to 20.5 percent.

Other terms outlined by USA Capital also were changed at the 11th hour, according to the court papers. Hantges persuaded Robert and Cheryl Porter, the owners of American, to use part of the working capital loan to buy some of Hantges' Inco stock at \$3 a share - although the shares were trading for \$2 a share - for a total \$687,000.

The lawsuit claimed that Hantges made the stock purchase a condition for getting the loan, but Hantges' attorneys called that statement false.

Inco filed for bankruptcy protection in October 1999.

Housing Partners, another Hantges company, made a loan to American, and soon started running American, giving directions to American employees and preventing the Porters from attending American business meetings, the lawsuit claims. Hantges' attorneys denied the allegations.

In 2000, the Porters, Rolland Weddell of Carson City and Spectrum Financial formed Principle Centered Inc. to take over all but one of American's development projects.

One of the investors in loans to American was Salvatore Reale, a former lieutenant in the Gambino crime family who has been convicted of loan sharking, according to the lawsuit and testimony from Robert Porter. Hantges' attorneys acknowledged Reale was among the investors.

In 2001, the Porters found themselves in a scene reminiscent of "The Sopranos" television series, the lawsuit said.

"After dark, a large, imposing, muscular man dressed in a suit, identifying himself only as 'Bobby' ... came to the door of the Porters' residence, claiming to have been sent by Hantges to be sure that the Porters were fine and healthy," the lawsuit states.

In a deposition last year, Robert Porter testified about finding "Bobby the Goon" on his doorstep and hearing Bobby say he worked with Hantges.

"He was a pretty imposing guy," Porter said. "He looked like he was right out of central casting. This guy was a John Gotti wannabe."

Bobby, according to Porter, "said he just wanted to make sure I was OK, and he - I think he said that two or three times, and then he said, 'Happy New Year,' and kind of sauntered away."

Porter said he called a friend who is an FBI agent and explained what happened. "That's the way it's done. They're very gentle and polite the first time, and you don't want there to be a second time," the agent said.

There was not a second time, Porter said.

Kate Tschopik, an attorney for defendants in the lawsuit, said the reason for the meeting in the dusk was benign and suggested the Porters overreacted.

Tschopik said the Porters settled but she declined to disclose terms.

Some former associates of Hantges say they are not surprised that USA Capital's business blew up. They generally describe Hantges as a smart, educated businessman with the instincts of a street fighter.

Before entering the securities industry, Hantges worked as hotel manager for the Stardust.

On one occasion, Allen Glick, a front-man for the mob, tried to fire Hantges, because he was talking to an employee's daughter by the swimming pool, Hantges said.

Frank "Lefty" Rosenthal, the real boss at the Stardust, told Glick he wasn't allowed to fire Hantges. "In fact, (Rosenthal) gave me a raise," Hantges