



News

SEC Sues Colt Investor

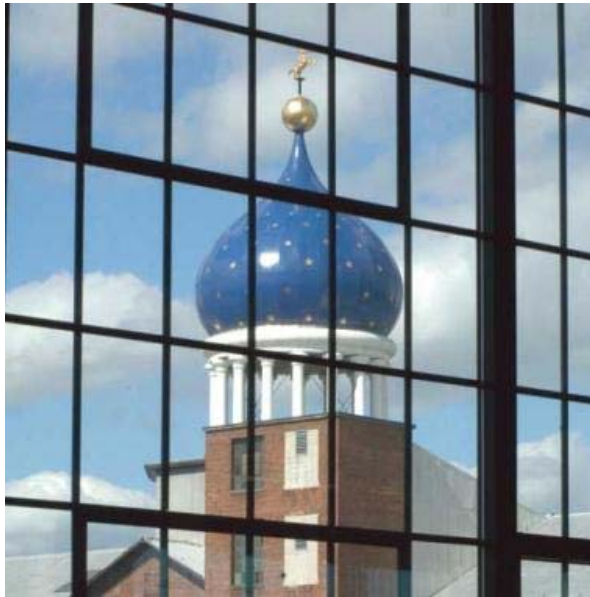
The Securities and Exchange Commission is alleging a Las Vegas-based financier with an interest in Colt Gateway duped investors out of millions of dollars before being forced into bankruptcy

By Daniel D'Ambrosio

Comments (0)
Thursday, May 01, 2008

A Las Vegas financier charged with fraud by the Securities and Exchange Commission owns a 50 percent chunk of Colt Gateway, according to the SEC, a relationship not previously acknowledged by Colt developer Robert A. MacFarlane.

The SEC discovered Joseph Milanowski's stake in Colt Gateway — held in a company called USA Investment Partners — during its investigation of bankrupt Las Vegas lender, USA Capital. Milanowski, 46, is the former president of USA Capital and co-owner of USAIP, according to the SEC lawsuit filed on April 23 in U.S. District Court in Nevada. Milanowski's partner in USAIP was not named in the lawsuit.



Ironically, MacFarlane, of Yonkers-based Homes for America Holdings, has routinely blamed Colt Gateway's current fiscal crisis on loans from USA Capital that he has been unable to settle, despite offering to pay them off, because of the chaos created by the bankruptcy. MacFarlane says the entanglement with USA Capital has prevented other lenders from getting involved in the project to convert the historic 19th-century firearms factory in the South Meadows into apartments and retail space.

While the SEC lawsuit alleges USAIP improperly loaned \$8.3 million to Colt Gateway, the agency is not investigating MacFarlane or the project, according to spokesman Kelly Bowers.

"All we're alleging in the complaint is that Milanowski through his fund loaned money to Colt Gateway and those loans were improper because he has an interest in Colt Gateway," said Bowers. "We aren't taking a position about the merits of Colt Gateway or the relationship of MacFarlane to Milanowski."

Bowers declined to speculate on whether MacFarlane or Colt Gateway could become the targets of future SEC investigations. MacFarlane was vacationing out of the country and couldn't be reached for comment. Calls to other HFAH company representatives were not returned.

Work on Colt Gateway stalled a year ago as MacFarlane tried to line up additional financing to

Find it Here:

keyword:

search type:

AND (all keywords)

search in:

Articles

Search

<< Previous | Next >>

Print

Email

RSS feed

Rants: Paying at the Pump

By our disgruntled readers
05/08/2008

A Shifting School Strategy

In Hartford Public Schools, power and money are being pushed out to individual schools rather than being kept in the central administration, but there have already been some unintended consequences
By Daniel D'Ambrosio
05/08/2008

Hard Times At Twain's House

One of Hartford's international landmarks struggles to remain fully funded and relevant
By Adam Bulger
05/08/2008

Letters to the Editor

Going green
By our readers
05/08/2008

Mickey Mouse-opatamia

Disneyland comes to Baghdad
By Alan Bisbort
05/08/2008

clear his debt to USA Capital and begin construction again. In a story in the Advocate last September, MacFarlane's daughter Rebekah said HFAH needed a \$10 million grant from the state to clear the debt and complete the project. Even though it was recently granted National Historic Landmark status by the U.S. Park Service, Robert MacFarlane has threatened to sell the troubled property unless the state gives him the grant.

But Joan McDonald, commissioner of the State Department of Economic and Community Development, told the Hartford Courant in an April 24 story that the state would not invest any more money in the project until MacFarlane got his own financial house in order.

MacFarlane has insisted that once he gets USA Capital off his back — with the help of \$9.6 million in taxpayer money — he'll attract new financing for Colt Gateway.

The SEC lawsuit shows the \$8.3 million loan to Colt Gateway from USA Capital came in three installments beginning on July 10, 2003, soon after MacFarlane bought the former Colt factory in January 2003.

The three installments of the loan were never secured by real property, according to the SEC, and for two of the loans totaling \$5.2 million there were only "unsigned promissory notes." The SEC was unable to find any documents for the third installment of \$3.1 million.

Because Colt Gateway never made a single payment on its loans from USA Capital, by Nov. 30, 2006, the unpaid interest added up to more than \$4.8 million, bringing the total outstanding balance of the loans to \$13.1 million.

Summing up, the SEC states, "Contrary to USA Capital's representations to Fund investors, Milanowski misappropriated and misused most of the Fund's offering proceeds to make unsecured loans to entities affiliated with him" — which appears to be a fair description of what happened at Colt Gateway.

The SEC found that as of Nov. 30, 2006, USA Capital, through its Diversified Trust Deed Fund, had loaned a total of \$92.3 million to various real estate developments, with 94 percent of the loans improperly made to USA Capital affiliates like Colt Gateway, unsecured by first trust deeds.

"Milanowski was principally responsible for USA Capital's making these improper loans," states the SEC lawsuit.

All told, USA Capital raised more than \$960 million from about 6,800 individual investors across the country in various real estate loans before declaring bankruptcy in April 2006. Before going bankrupt, those investors received account statements from USA Capital that showed dividends paid for the month and annualized returns of between 9 percent and 12 percent. They were told the real estate loans they backed were secured by first deeds of trust when they weren't. The statements also did not indicate whether or not the loan was performing — being repaid according to the terms — or show outstanding loan balances.

"By not providing this information in the account statements, USA Capital created the impression that the loans were performing and the distributions to investors were interest payments, thus inducing them to continue to invest, either in the form of new money or reinvestment of distributions from the Fund," states the SEC lawsuit.

Unfortunately, investors were suckered, according to the SEC, because the loans were not performing — just as payments on the Colt Gateway loans were never made — and the distributions were not payments of interest as USA Capital depicted them to be.

Then where exactly was the money for those purported interest payments coming from? The lawsuit doesn't address that issue, said Bowers. †

Send comments to editor@hartfordadvocate.com

[Post a Comment](#)

Cops and Copper

High metal prices fuel an underground trade of stolen scrap

By Jim Motavalli
05/08/2008

Crime and Punishment

Curious police reports from around the region

Compiled by Adam Bulger
05/08/2008

Up Front: There She Is ...

Ms. CT in the House?

By Advocate staff
05/08/2008

One Spruce Peak

The 28 exclusive residences at



— Reserve yours —
today

