

Met trust and accounting firm settle

PriceWaterhouse to pay \$30 million

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The Metropolitan Mortgage & Securities Co. investors' trust has reached a settlement agreement of about \$30 million with an accounting firm accused of making mistakes that led to the company's demise.

If approved, the settlement with PriceWaterhouseCoopers LLP would be the single largest sum collected since the Spokane financial conglomerate went bankrupt four years ago. And it marks the first time a big-money accounting firm has agreed to pay for its role in the Metropolitan debacle.

The money would be disbursed among thousands of investors burned by the Metropolitan collapse. Most were retirees and their family members living in the Northwest who held more than \$460 million in unsecured bonds called debentures.

Metropolitan trustee Maggie Lyon said she was pleased a tentative settlement had been struck. She declined to disclose specifics, citing a secrecy clause.

PriceWaterhouse confirmed a settlement has been reached, but provided no details.

Lawyers for the trust and PriceWaterhouse will brief U.S. District Court Judge Fred Van Sickle on Monday morning. The settlement cancels a 20-day trial set to start Monday.

The trust had sought to pin Metropolitan's collapse on PriceWaterhouse, alleging the accounting firm violated its duty as independent auditor in 1999 and 2000.

The investors' trust alleged the audits failed to reflect significant financial failings and the company's poor preparation to enter the high-risk commercial lending business. Instead, PriceWaterhouse helped Metropolitan mask its problems by concocting an offshore investment scheme that turned out to be a cleverly disguised tax shelter, the trust said.

PriceWaterhouse even issued a tax opinion on the merits of the transaction and how Metropolitan would likely prevail if challenged.

The tax shelter, which used an Isle of Man office, fell apart under an Internal Revenue Service crackdown on such tax-avoidance shams.

State insurance regulators also took a dim view of the transaction and determined Metropolitan's insurance affiliates should not have participated. They called it a contributing factor in the decision to put Metropolitan-owned Western United Life Assurance Co. into receivership.

The lawsuit, filed in 2005, seemed destined for trial until a series of rulings and summary judgment decisions went against PriceWaterhouse during the past month as the sides sharpened their arguments.

Much of the trust's case relied on what the Metropolitan board of directors said they would have done had the PriceWaterhouse audits reflected the true financial condition of the company. Board members said they would have been alarmed and likely hired a turnaround specialist.

Such a specialist, the trust argued, would have curtailed spending and sold insurance affiliates to raise perhaps \$300 million – enough money to ease a looming cash crunch and keep the company solvent.

Instead, Metropolitan's problems grew until the U.S. Securities and Exchange Commission in 2003 cut off its richest source of new cash – the sale of stocks and bonds to investors. Without this infusion of new investors, along with an onslaught of investigations, Metropolitan defaulted and declared bankruptcy. PriceWaterhouse argued that the audits accurately reflected

the financial condition as represented by Metropolitan executives. In fact, when PriceWaterhouse auditors didn't allow Metropolitan to book certain transactions, the Spokane company's executives fired the accounting firm. PriceWaterhouse's lawyers also questioned the resolve of Metropolitan's board and noted the aggressive management style of Chairman and Chief Executive C. Paul Sandifur Jr., who a special bankruptcy examiner said ran the companies with complete control. Sandifur and his family were the sole owners of common stock. He took over the firm after his father's death in 1995.

The settlement does not resolve a class-action lawsuit brought by investors against PriceWaterhouse.

Also pending is the trust's arbitration case against Ernst & Young, the auditing firm Metropolitan hired after firing PriceWaterhouse.