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Business & Technology: Tuesday, September 27, 2005

6 charged in collapse of Met Mortgage

By **Drew DeSilver**
Seattle Times business reporter

Federal regulators yesterday filed civil charges against six people for their roles in the collapse of Metropolitan Mortgage & Securities of Spokane in early 2004, one of the Northwest's biggest financial scandals.

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One of the six also faces criminal charges.

The demise of **Met** and sister company Summit Securities left more than 10,000 people across the Northwest — many of them retirees or inexperienced investors — holding more than \$600 million in nearly worthless debt and preferred stock.

The Securities and Exchange Commission charged owner and former Chief Executive C. Paul Sandifur Jr. and three other top executives of **Met** and sister company Summit Securities with 11 federal fraud counts, including filing false financial statements, keeping inaccurate books and engaging in circular real-estate deals to create a veneer of profitability.

"It's one of the largest financial fraud cases to come out of the Pacific Northwest in a generation," said Patrick Murphy, chief of the SEC's San Francisco branch.

Sandifur, 63, was Met's chairman and chief executive until January 2004, when he quit days before the company filed for Chapter 11 bankruptcy protection. A longtime player in Spokane's political and cultural life, he is said to be living in El Centro, Calif.

Kelly Corr, a Seattle lawyer who is one of Sandifur's attorneys, said the former businessman was a scapegoat for Met's failure.

"Ironically, the person who lost the most money in all this is Paul Sandifur,"

Investors and their investments

Metropolitan Mortgage: More than 10,000 investors hold \$357.2 million in debt securities; thousands more hold \$102 million in preferred stock.

Summit Securities: 6,600 investors hold \$112.8 million in debt securities; thousands more hold \$29 million in preferred stock.

Recovery for debtholders: Currently estimated to be at least 14 cents on the dollar, with another 15 to 18 cents possible depending on the pending sale of the insurance companies and the resolution of other outstanding issues.



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Corr said yesterday. "His entire net worth was tied up in Metropolitan and Summit stock. Unfortunately, there's a lot of Monday-morning quarterbacking going on."

Also named in yesterday's complaint were former Summit President Thomas G. Turner, 54, now of Sparks, Nev.; former **Met** controller Robert Ness, 41, of Bellevue; and Thomas R. Masters, 54, of Spokane, Met's former vice president for property sales and development.

In addition to the civil complaint, Turner was indicted by a federal grand jury on seven criminal charges for allegedly misleading Met's and Summit's outside auditors about the true nature of a 2002 land deal. He is the first person criminally charged in the ongoing investigation. Turner was arrested yesterday in Nevada.

Toby Arnold, 59, a **Met** investor who recently moved from Bothell to Eagle, Idaho, welcomed the civil and criminal charges.

"I hope these guys get what they deserve," said Arnold, who sank \$75,000 into **Met** preferred stock. "I was kind of hoping they'd pull something together so I could get some cash out of the deal. But given the number of people who were affected by this, it's nice to know they might do something to the guys who were responsible."

The civil complaint, filed in U.S. District Court in Seattle, asks that Sandifur, Turner, Ness and Masters be ordered to turn over all "ill-gotten gains" to the government, plus interest; that Sandifur, Turner and Ness be barred from serving as officers or directors of any public company; and that all defendants pay unspecified fines.

In the 2002 deal that resulted in the criminal charges against Turner, according to the complaint, **Met** sold land in Everett and San Antonio to Trillium, a timber and development company headquartered in Bellingham, through a shell company controlled by a Trillium creditor. The complex, \$24 million deal was structured to hide both the fact that Trillium was the actual buyer, and that **Met** was advancing the purchase money to the shell company — in essence, providing a no-money-down mortgage.

Although such deals are not themselves illegal, accounting rules forbid sellers from immediately counting the paper profits from the sale. According to the

Recovery for holders of preferred stock: None.

Source: Seattle Times research

Company facts

Founded: 1953

Chief executive: C. Paul Sandifur Jr., son of founder and controlling shareholder; resigned in 2004

Headquarters: Spokane

Employees: 323 in June 2003; only a handful remaining

Businesses: Invested in receivables, such as mortgages, lawsuit settlements and lottery winnings; sold life insurance and annuities; developed property; invested in startups

Related businesses: Indirectly owns Western United Life Assurance; sister company, Summit Securities, owns Old Standard Life Insurance, which in turn owns Old West Annuity & Life

Source: Seattle Times research

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Metropolitan Mortgage unravels

1991

complaint, **Met** hid the details of the deal from its outside accounting firm, Ernst & Young, and immediately booked a \$10 million gain.

Sandifur referred to such deals as "rabbits," a reference to pulling rabbits out of a hat, the SEC complaint says.

In another "rabbit" deal, the complaint said, **Met** subsidiary Western United Life Assurance sold 188 acres in the Tri-Cities area to a developer and booked a \$1.4 million gain, even though all the developer's funding had come from Western and a Summit subsidiary, Old Standard Life Insurance.

Through such "rabbits," according to the complaint, **Met** was able to show a \$3.9 million profit in fiscal 2002 — critical to the company's sales to investors of the notes and preferred stock that, by that time, were its main source of legitimate income.

Besides the **Met** officials, the SEC's civil fraud complaint also named Trillium; its owner, David Syre of Bellingham; and Dan Sandy of Rochester, Thurston County, the creditor who set up the shell company. (The shell, Jeff Properties, purportedly was owned and run by Sandy's 18-year-old son, Jeff. According to the complaint, "Jeff Sandy agreed to his role after Sandy, his father, and Syre promised him a motorcycle.")

Mark Fagel, associate district administrator for the SEC, said the agency increasingly has gone after business partners that help companies commit financial fraud.

"You can't do a round-trip transaction unless you have someone on the other end making it happen," Fagel said. "It's important to clamp down on those people, too."

Also yesterday, two former stockbrokers in Portland were charged with fraudulent practices related to their

C. Paul Sandifur Jr. takes over as **Met**'s chief executive, succeeding his father, the company's founder. He becomes chairman in 1995.

Late 1990s

Facing declines in its traditional businesses, **Met** expands into areas including real-estate development, **mortgage** origination and venture capital. The new businesses are funded by ever-larger sales of debt securities and preferred stock.

2000

January: **Met** lists an issue of its unsecured debt on the Pacific Stock Exchange, enabling it to escape direct regulation by the Washington Securities Division.

2003

November: Citing a cash crunch, **Met** suspends dividends and debt payments for the first time in its history.

Dec. 11: The National Association of Securities Dealers orders **Met**'s brokerage arm to pay \$4 million in penalties and restitution for abusive sales practices.

Dec. 15: The brokerage is shut down, depriving **Met** and sister company Summit Securities of their only source of new investment cash.

Dec. 19: The American Stock Exchange suspends trading in the preferred stock of **Met**, Summit and the holding company for Western United Life Assurance.

Dec. 22: Washington's insurance commissioner takes control of Western United, following similar moves by regulators in Idaho and Arizona against subsidiaries.

2004

Jan. 20: Investors sue **Met** and Summit, alleging they were misled about the safety of its securities.

Jan. 22: Ernst & Young resigns as **Met**'s outside auditor, saying it could no longer rely on management. Thomas Turner, Summit's president, is fired.

sales of \$35 million in **Met** and Summit notes and preferred stock.

The complaint alleges William Sears and Patricia Sears-Million told clients **Met** securities were as safe as bank certificates of deposit when they should have known how risky they were, and that in some cases they falsified information in clients' records to make it appear they had more assets or higher risk tolerance than they did.

The pair, who are husband and wife, face civil charges of violating federal securities laws, as well as 32 criminal counts of mail fraud and three counts of money laundering. An attorney for the couple did not return calls seeking comment yesterday.

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Jan. 27: Sandifur resigns as Met's chairman and CEO.

Feb. 4: **Met** and Summit file Chapter 11 bankruptcy.

2005

March 25: Insurance regulators in Washington, Idaho and Arizona say they will sell off Met's and Summit's life-insurance subsidiaries.

Sept. 23: **Met** and Summit sue their former accounting firm, PricewaterhouseCoopers, alleging its 1999 and 2000 audits failed to uncover the companies' deepening troubles.

Sept. 26: Federal authorities file a raft of civil and criminal charges against Sandifur, three other **Met** and Summit executives, business associates and two former brokers.

Source: Seattle Times research

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