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Sterling, Fintegra sued over land investments

BY COURTNEY SHERWOOD
BUSINESS JOURNAL STAFF WRITER

Declining real estate values have spurred 16 people to sue Sterling Savings Bank and Fintegra LLC for selling investments through a now-bankrupt real estate firm.

In papers filed in Multnomah County Circuit Court, the plaintiffs claim that they were sold shares of real estate ventures with assurances that their investments would be safe. They aim to recover $6.8 million in lost principal.

Investors included a couple from the Tillamook area that used money from the sale of a family dairy, and several elderly people from Washington and Nevada looking for returns on their retirement funds.

But the real estate entities that they put money into have stopped yielding monthly distributions, according to court documents, and the company that issued shares in the real estate now stands accused of running a Ponzi scheme that has put thousands of investors at risk.

Underlying the losses of these 16 investors — six are from Oregon — is the collapse of Boise, Idaho-based DBSI Inc. and its affiliates.

A privately held real estate firm, DBSI specialized in tenant-in-common real estate ventures that took advantage of Internal Revenue Service provisions to minimize capital gains taxes.

When property values were climbing, DBSI was able to guarantee steady returns. But according to securities regulators in Idaho, DBSI investments evolved into a Ponzi scheme, with money from new investors going to pay off earlier investors.

DBSI faces a $2 billion class action suit for those losses, but it is the people and businesses who sold DBSI's securities — many of them in Oregon — who are the target of the Multnomah County lawsuit.

The investments were sold out of Sterling Savings Bank branches, by workers jointly employed by Sterling and Minnesota-based Fintegra, according to the complaint filed by Portland law firm Stoll Stoll Berne Lokting & Shlachter PC.

Spokane, Wash.-based Sterling has 68 branches in Oregon, and contracted with Fintegra to provide financial services at many of its locations.

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The plaintiff's attorneys declined to comment on the suit, as did Sterling Savings and Fintegra officials.

The legal complaint accuses Fintegra, Sterling Savings Bank and five employees of violating securities laws by touting the DBSI investments as safe sources of guaranteed returns. The complaint also alleges that DBSI securities were not registered in Oregon or other states where they were sold, and that one employee, Bobby J. Parks, was not registered to sell securities in Oregon.

Because of these alleged violations, the investors argue that Fintegra, Sterling and employees who recommended these investments should be held financially responsible for their losses.

The DBSI investments added an additional layer of complexity to the mix, by bringing multiple unrelated shareholders together to own real estate they might never see.

Unraveling ownership of DBSI's 300 properties, which belong to more than 8,000 investors, could take years.

Fintegra and Sterling have asked the court for arbitration.

If a judge agrees following an August hearing, the results of the dispute may never be made public.

But this suit is likely to be one of many legal filings to emerge from alleged schemes related to IRS tax code 1031, according to attorneys. The code allows investors to delay paying capital gains tax by investing the proceeds from a real estate sale into other property.

Already, the collapse of Bend-based Summit Accomodators has been tied to so-called "1031 exchanges."

Summit specialized in these transactions for more than a decade, its investments reached close to $30 million in value. It entered bankruptcy in December.

Summit's bankruptcy trustee is now suing Roseburg-based Umpqua Bank, which loaned money to Summit owners and investors, for allegedly assisting with embezzlement of funds. Umpqua officials deny any wrongdoing.