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Lifetrade investors sue S&P, Wells Fargo for \$686 mln

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(Reuters) - More than 50 offshore investors in a failed life-settlement fund sued Standard & Poor's Global, Wells Fargo Bank and several other entities on Monday, accusing the companies of negligence and willful misconduct that led to the loss of at least \$685.8 million.

The proposed class action, filed in the U.S. District Court in Manhattan, accuses Standard & Poor's of fraud and misrepresentation for giving Curacao-based Lifetrade Fund B.V. an investment-grade rating for five years despite the riskiness of the venture. The plaintiffs also claim Wells Fargo put its own interests as a lender on a line of credit ahead of its duties as trustee of the fund and custodian of its assets.

Representatives for Wells Fargo and S&P Global declined to comment on pending litigation on Tuesday. The plaintiffs' attorneys did not immediately respond to requests for comment.

Commonly derided as "death futures," life settlements allow people with whole- or universal-life insurance policies to sell their interest to investors, who continue to pay the premiums during the insured's life and collect the benefits when the insured dies.

From 2006 to 2012, Lifetrade pooled between 236 and 500 such policies and sold shares in the pool as if it were a mutual fund, according to the suit filed by investor and lead plaintiff Luis Ramiro Aviles of Argentina. Wells Fargo served as the trustee of the fund, custodian of the policies and lender on a \$500 million line of credit, Aviles alleges.

According to the suit, the brokerage that Lifetrade used, 21st Services (now known as ITM TwentyFirst) deliberately overvalued the policies in order to boost its own compensation. That caused problems when premiums exceeded benefits received, and Lifetrade had to borrow nearly \$200 million on the line of credit.

Lifetrade was unable to refinance the line of credit in 2011 and, in 2012, turned over the policies to Wells Fargo in satisfaction of its debt. Aviles alleges that the policies had a face value of \$912 million. Even then, Lifetrade continued to assure investors that their accounts were merely "suspended" and that it was working toward a resolution. The plaintiffs say they only learned the full extent of the alleged wrongdoing this February, when the company called for an annual shareholders' meeting for the first time in four years and included "draft" annual reports that showed the company was in the red.

The plaintiffs accuse S&P of fraud and misrepresentation largely on the basis of a 2009 report it had issued, which the plaintiffs discovered as part of their research for the lawsuit. They say the report shows that S&P knew that life settlement funds were not, in fact "investment grade" because of several concerns it had about the business model.

Those concerns included the lack of statistical credibility for actuarial assumptions when the pool included less than 1,000 policies and concerns about the timing of cash flows, both of which were problems that led to Lifetrade's demise, Aviles alleges.

The suit also seeks compensatory and punitive damages from ITM TwentyFirst, the company that handled the settlements, Portsmouth Settlement, and Lifetrade's founder, Roy Smith.

ITM TwentyFirst's CEO, Kurt Gearhart, did not immediately respond to requests for comment on Tuesday. The telephone number for Portsmouth Settlement was not in service. Contact information for Roy Smith was not available.

The case is Aviles et al v. Standard & Poor's Global et al, U.S. District Court for the Southern District of New York, No. 17-2987.

For Aviles et al: William Hynes Mack of Phillips & Paolicelli, with Paul Lawrence II and Charles Siegel of Waters & Kraus

For Standard & Poor's Global, Wells Fargo et al: Not immediately available

---- Index References ----

Company: ITM TWENTYFIRST LLC; S&P GLOBAL INC; WELLS FARGO AND CO; WELLS FARGO BANK LTD

News Subject: (Business Lawsuits & Settlements (1BU19); Business Litigation (1BU04); Business Management (1BU42); Class Actions (1CL03); Consumer Protection (1CO43); Corporate Events (1CR05); Legal (1LE33); Liability (1LI55); Major Corporations (1MA93))

Industry: (Banking (1BA20); Financial Services (1FI37))

Region: (Americas (1AM92); New York (1NE72); North America (1NO39); U.S. Mid-Atlantic Region (1MI18); USA (1US73))

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