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St Pete sues Wachovia as Bankruptcy spreads

The city of St. Petersburg has taken up a lawsuit against its financial advisor, Wachovia Bank. The suit was filed in US District Court in Tampa, Florida and stems from Wachovia's failure to warn the city of the impending collapse of Lehman Brothers Holdings Inc. At the time of the collapse, St. Petersburg was holding $15 million worth of Lehman bonds. Needless to say, after Lehman filed what turned out to be the largest bankruptcy filing in US history, the bonds were practically worthless. The city contends that Wachovia bank should have sounded the alarm bells to it when credit rating agencies drastically downgraded Lehman's ratings during the spring and summer of 2008. Having lost $15 million, the city attributes it to Wachovia's inaction over Lehman's impending collapse.

In court papers, St. Petersburg stated that because Wachovia remained silent during the crucial period when Lehman's ratings were sliding down, it deprived the city of the opportunity to sell off the bonds before it was too late. Court papers go on to show that Wachovia only alerted city officials on September 16, 2008, one day after Lehman filed for bankruptcy by which time, the bonds were not even liquid anymore. Unfortunately for the city, it used the bonds to participate in some sophisticated and risky lending programs administered by Wachovia. The bonds were in turn loaned to others and when they became worthless, the city had to pay $15 million in cash to compensate the borrowers.

In its lawsuit, the city seeks an unspecified amount in punitive damages and compensation. On its part, Wachovia denies all allegations in the suit. Under its new owner, Wells Fargo & Co., the bank intends to fight the case. In its defense, the bank puts forth its contention that at the time St. Petersburg purchased the bonds, they were rightly valued.

Admittedly, the whole episode served as a rude wake-up call to the city officials. But St. Petersburg is not alone in its financial turmoil. Many other cities in various counties are similarly plagued with fiscal problems of their own. The Lehman bankruptcy in particular, hit dozens of other communities in counties across 20 states in the country. One example is Sarasota County that owned $40 million in Lehman bonds. No prizes for guessing who Sarasota County's financial advisor was. Altogether, Florida communities lost in excess of $456 million.

Somewhat fortunately for Sarasota County, it did not sell its Lehman bonds, instead it recorded them as unrealized losses in its books for 2008. Since then, the value of the bonds have risen as the bonds continued to mature and allowed the county to record them as unrealized gains in their books in 2009.

On the other hand, St. Petersburg had to write down their losses from the Lehman bonds in their books in 2008.