December 25, 2004

Ernst & Young to Pay U.S. Over Bank Collapse in '01

By THE ASSOCIATED PRESS

HINSDALE, Ill., Dec. 24 (AP) - The accounting firm Ernst & Young has agreed to pay $125 million to the Federal Deposit Insurance Corporation over the collapse of a suburban Chicago bank three years ago, the F.D.I.C. announced Friday.

The failure of Superior Bank, based in Hinsdale, cost the F.D.I.C. about $700 million, making it one of the largest federally insured financial institutions to fail in a decade.

Investigators for the Treasury Department, the F.D.I.C. and Congress blamed the risky business strategies of Superior's management for the collapse, but they also cited failures on the part of Superior's outside auditing firm, Ernst & Young. The F.D.I.C. accused the firm of negligence and concealing the bank's true financial conditions.

Under the agreement announced Friday, Ernst & Young did not admit any liability.

A spokesman for Ernst & Young, Charles Perkins, said the firm had already made changes to its auditing practices, including adding more technical resources and increasing its requirements for training and experience.

"Our decision to reach these settlements," Mr. Perkins said, "underscores our commitment to work cooperatively with regulators and to ensure that we have the strongest policies and procedures to serve our clients and the public interest."

The Ernst & Young agreement involved two settlements: one for $40 million with the F.D.I.C. and another for $85 million involving enforcement claims by the Treasury's Office of Thrift Supervision, which closed Superior on July 27, 2001. The F.D.I.C. said that it would receive both amounts.

"We still expect to lose money because of this failure, but this will go a long way in recouping as much as possible," an F.D.I.C. spokesman, David Barr. He said some of the settlement would eventually reach uninsured depositors who lost money in Superior's collapse.

Superior Bank claimed about $2.3 billion in assets at the time and was owned by the multibillionaire Pritzker family and a New York developer.

The Pritzkers agreed to a $460 million voluntary settlement in 2001 that barred government action against the owners. The owners admitted no liability. So far, the Pritzkers have paid about $175 million under the settlement's payment schedule, Mr. Barr said.