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Bank seizes money from school districts embroiled in risky investments

By [Amy Hetzner](#) of the Journal Sentinel

Posted: March 24, 2010 7:06 p.m. | [\(11\) Comments](#)

A European bank that loaned money to five Wisconsin school districts that made risky investments has seized \$5.6 million from district-controlled trusts to try to compel district officials to repay the debt.

DEPFA Bank took the action earlier this week after a year of fruitless efforts to work out a restructuring of \$165 million worth of loans to the district trusts that have been in technical default for more than two years.

"We are taking the steps that we can take and we are very much interested in restructuring the loan," DEPFA Bank spokesman Walter Allwipher said Wednesday.

Officials with the school districts - Kenosha, Kimberly, Waukesha, West Allis-West Milwaukee and Whitefish Bay - used the borrowed money plus other existing or borrowed assets to purchase \$200 million worth of complex investment vehicles called collateralized debt obligations.

The districts had planned to use quarterly interest payments from the investments to help fund non-pension retirement payments, with the expectation that the full amount of the investment would be returned to them after seven years and used to pay off their debts to DEPFA.

But the investments began to lose most of their value amid the global financial crisis in 2008 and now are believed to be nearly worthless. The five school districts have sued Stifel, Nicolaus Co., Inc. and Royal Bank of Canada in Milwaukee County Circuit Court, claiming the two investment banks misled them about the nature of the districts' investments.

C.J. Krawczyk, one of the lawyers representing the districts, said DEPFA's action would have little effect on the schools' operating budgets. The money held in the trusts was likely leftover payments from the investments that had been used to pay DEPFA's interest payments, although it also could include some of the equity the districts originally contributed to the trust funds, he said.

"Frankly, we've been expecting them to take this action for some time," Krawczyk said.

Earlier this month, the districts were sent letters notifying them that DEPFA was demanding they pay the full amount of the principle and interest due on each of their loans.

That notice cleared the way for the bank to seize the trust fund assets earlier this week.

The amounts taken from each districts' trust were:

- Kenosha: \$632,757.61
- Kimberly: \$134,233.10
- Waukesha: \$2,441,826.27
- West Allis-West Milwaukee: \$1,552,092.65
- Whitefish Bay: \$891,615.31

"This is the means that we have, and we mean to protect our rights as best we can," Allwipher said.

Krawczyk said the bank took the action after securing its quarterly payment earlier this month. With no funds left in the trusts, he said he was unsure how the districts would make their interest payments to DEPFA in the future. "I can't speculate on how the districts will respond," he said.

Also on Wednesday, the state Assembly held a hearing to consider a bill that would omit school districts from a list of governmental entities that could be sold unregistered securities. Although this is an issue in the districts' lawsuit, Krawczyk said it might not be considered anything more than "instructive" by the judge in the ongoing lawsuit, given that such a statute was not in place when the districts were sold the investments.

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1. [thinkformyself - Mar 24, 2010 7:37 PM](#)

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Why do I get the feeling that the taxpayers are going to get this shoved up our a****? You made a greedy decision, know live with it! Thats Life

2. [dgolombowski - Mar 24, 2010 7:38 PM](#)

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These school administrators are fools and they are playing high stakes games with taxpayers funds. What kind of clowns borrow money to place in a risky investment?

3. [moony9472 - Mar 24, 2010 7:43 PM](#)

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The school districts' claim that they were "misled" by the investment banks is laughable. There are hundreds of school districts in Wisconsin - why were these five the only ones to bite on this scheme?

No, this is what happens when you play with real money ...

4. [eastsider01 - Mar 24, 2010 7:46 PM](#)

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Nice leadership the school districts show; its ok to make stupid investments and cheat to avoid the consequences. Their students are probably of higher character than the idiots on these school boards.

5. [dhmke - Mar 24, 2010 7:49 PM](#)

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From hundreds of articles I have read on these derivatives, virtually all were fraudulent in one respect or another. They served no useful purpose, were sold under false pretense, and in some cases were designed to fail.

It would be useful if the Journal Sentinel went into much further depth on this story as it is at the very core of the financial crises we are still in.

6. [badgerdelight - Mar 24, 2010 7:51 PM](#)

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In the end it's always the taxpayer that gets screwed.

7. [Waukinthepark - Mar 24, 2010 8:25 PM](#)

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@dhmke - to bad your leaders in the school districts didn't read 100's of articles before they started to gamble this money away.

8. [legaldog - Mar 24, 2010 8:25 PM](#)

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In addition, the school district in Whitefish Bay had the cajones to ram through a major building projects this past year that will be funded by an increase in property taxes - in the meantime, they frittered away millions. Absolutely clueless leadership.

Then again, the idiots of WFB approved the rebuilding project last November. Most probably had no idea about this boondoggle.

9. [marko61 - Mar 24, 2010 8:39 PM](#)

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Anytime you make investments you risk losing. This is also another reason why social security monies should never be invested in the stock market.

10. [resonator - Mar 24, 2010 8:43 PM](#)

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The idiocy in these comments is astonishing.

The people involved made these decisions in good faith, there was no "cheating" involved, and dhmkc has no idea whatsoever about what derivatives really mean. And by the way, "legal dog", it's cojones, not cajones, you dope.

There really were no games being played, no one was cheating, no one was deliberately taking undue risk. These were well-meaning people giving their time and effort to the community to try and make our schools run better. They made their decisions based on representations by financial professionals, and THEN THE WORLD CHANGED!!!! Lots of perfectly legitimate judgements became wrong when we faced a set of circumstances we had never, ever seen before. In case you idiots missed it, we just went through the most wrenching financial crisis in history. Lots and lots of professionals were overwhelmed. These were civilians trying to do the right thing, and you all ought to be grateful, rather than being such churls.

It's easy for you illiterates to take cheap shots at good people about things you clearly don't understand. The most obvious point that you all make is that you should have paid more attention when you were going to the schools that these people make possible.

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