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Citi Ordered to Pay Two Investors \$3.1 Million for Losses

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By Matthias Rieker

Citigroup Inc. (C) has been ordered to pay a Florida couple \$3.1 million after a financial adviser entangled the bank in a busted real-estate development by former gubernatorial candidate Lawton "Bud" Chiles.

An arbitration panel found Citi liable for losses suffered by Dr. Nasirdin Madhany and Zeenat Madhany of Orlando. They claimed the bank's Smith Barney brokerage failed to properly supervise one of its advisers, Scott Andrew King, who steered them into the condominium projects even though Citigroup and Smith Barney had no role in them and had not authorized them as investments.

Dr. and Mrs. Madhany became involved in the projects in 2004 and invested just over \$1 million. They also signed a guarantee for a \$12 million loan from Wachovia Corp. to finance the developments, which were foreclosed on in 2009 when the real-estate market in Florida collapsed. Dr. and Mrs. Madhany's share in a settlement with Wells Fargo & Co. (WFC), which had bought Wachovia, was \$2.1 million.

Mr. King, meanwhile, bought two apartments in Mr. Chiles's developments at "friend" prices, according to the couple's claim. This added an alleged conflict of interest to the already prohibited practice of steering clients into investments that aren't approved by a broker's employer, they said.

"This was a good example of a broker putting his own interest ahead of his clients," said Jeffrey Sonn, a lawyer with Sonn & Erez PLC who represented Dr. and Mrs. Madhany. As Mr. King's employer at the time, Citi is liable for his conduct, he said.

Citi commented in an emailed statement, "We disagree with the award which was not supported by the facts or law."

Mr. King left Citi in 2005 for Wachovia Securities LLC, and now works for Wells Fargo. Wells Fargo declined to comment.

Mr. Chiles is the son of the late Florida governor Lawton Chiles and in 2010 ran for governor himself. He and Mr. King knew each other from church and charity work, according to Dr. and Mrs. Madhany's claim.

Smith Barney is now part of Morgan Stanley Wealth Management.

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