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Morgan Keegan Hit With $1.1 Million Award

By Suzanne Barlyn

An arbitration panel has ordered brokerage firm Morgan Keegan & Co. to pay $1.1 million to three holding companies for losses associated with several bond funds that were heavily invested in mortgage-related securities.

Morgan Keegan, a unit of Regions Financial Corp. (RF), Birmingham, Ala., must pay the $1.1 million award to three investment holding companies founded by Gen. Henry Cobb, Jr., also of Birmingham.

The brokerage was found liable for "failure to disclose the true nature" of the funds involved, according to an award by a Financial Industry Regulatory Authority, or Finra, arbitration panel, on Tuesday. The panel didn't provide a reason for its award or findings.

The investment holding companies, CIC Capital Management Company LLC, Cobb Investment Company LLC, and CIC Financial, were founded by Gen. Cobb, a World War II Army veteran, who is 89 years old, according to Jeffrey Erez, a lawyer in Fort Lauderdale, Fla. who represented him. The claimants initially sought more than $4 million.

Cobb and his holding companies alleged, among other things, that the funds, and other investments sold to them at the time, were promoted as "conservative investments with relatively low risk," according to a statement of claim.

A Morgan Keegan spokesman wasn't immediately available for comment.

The award marks the second time in less than a week that a Finra panel has ruled against the brokerage. On Friday, a Finra panel awarded $2.5 million to an investor in a case involving the same group of funds. A Morgan Keegan spokesman confirmed at the time that the $2.5 million award was the largest in response to a flood of claims filed by investors in the funds, which were hit by sizable losses in 2007 and 2008.

Finra has received more than 400 arbitration claims against Morgan Keegan & Co. involving six bond funds that were heavily invested in collateralized-debt obligations and other subprime-related securities. The funds declined in value by as much as 82% after the housing bubble burst.

Regions has since transferred management of those funds to Hyperion Brookfield Asset Management Inc. of New York, which subsequently liquidated and closed two of the funds, a Morgan Keegan spokesman confirmed on Friday.

The case involving Cobb's companies is "unusual," said Erez, because a Wells notice sent by the Securities and Exchange Commission to Morgan Keegan last year was admitted into evidence and read by the arbitrators, he said. Regions Financial reported in a securities filing last year that it received a Wells notice on July 9, 2009. Regions was told that the SEC "staff intends to recommend that the commission bring enforcement actions for possible violations of the federal securities laws," the filing said.

A Wells notice is sent to a company by the SEC ahead of a potential enforcement action. A Wells notice doesn't mean for certain that the SEC will initiate an enforcement proceeding, but does give the recipient an opportunity to demonstrate why the SEC shouldn't.

Erez declined to discuss the content of the Wells notice, citing confidentiality requirements.

Cobb's holding companies ultimately made a $6 million profit through the Morgan Keegan account, said Erez, but most of those profits were generated by income from a municipal bond portfolio, he said.

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