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Merrill Owes Couple \$1.3M For Fannie Mae Investment

By Caitlin Nish

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NEW YORK--Merrill Lynch must pay \$1.3 million to a Florida couple who said the firm misrepresented Fannie Mae preferred shares as a safe, U.S. government-backed investment in 2008, an arbitration panel ruled.

The investors, Robert and Michele Billings, accused their broker of recommending the preferred shares even though Fannie Mae was "in fact a highly leveraged residential mortgage company that was losing billions of dollars," according to the claim they filed in the Financial Industry Regulatory Authority's arbitration forum.

The broker, Miles Pure, either "intentionally ignored or recklessly failed to take into account" a steady stream of news about Fannie Mae's shaky finances, the investors alleged. Merrill's own analyst downgraded its rating on Fannie Mae common stock to 'sell' five months earlier, they noted, and Merrill had also removed Fannie Mae from its own recommended list of preferred shares.

The Billings, who are involved in breeding and raising thoroughbred horses, invested a total of \$2.3 million in the shares. Forty-one days after Mr. Pure's recommendation, as the real estate market collapsed, the Federal Housing Finance Agency placed Fannie Mae in conservatorship and their entire investment was rendered "virtually worthless," they alleged.

"Clients are entitled to make informed decisions about the investments and risks they're taking," said Jeffrey Erez, the Florida-based attorney who represented the couple.

The arbitration panel found Merrill liable of breach of fiduciary duty and ordered the firm to pay a total of \$1.3 million in compensatory damages. It denied the Billings's request for punitive damages. As is customary, the panel didn't explain the reasoning for its decision, which was dated Tuesday.

Merrill spokesman Bill Halldin said the firm disagrees with the panel's decision.

The arbitration panel denied a request by Merrill to expunge the Billings's allegations from Mr. Pure's publicly available broker record, which shows that he left Merrill in 2009 and is currently employed by Morgan Keegan & Co.

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