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Morgan Keegan slapped with \$1.38 million arbitration award



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March 27, 2013 *By Bruce Kelly*



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Morgan Keegan & Co. Inc. suffered another significant securities arbitration loss this week when a Financial Industry Regulatory Authority Inc. panel Monday signed off on a \$1.38 million award to an investor, whose complaint stemmed from Morgan Keegan proprietary bond funds that blew up during the credit crisis. Morgan Keegan, which was acquired by Raymond James Financial Inc. this year from Regions Financial Corp., has faced more than 1,000 such investor claims due to bond fund losses, according to published reports. As part of the acquisition agreement, Regions Financial took on financial responsibility for litigation from the bond fund lawsuits.

The \$1.38 million award this week included \$851,000 in compensatory damages, \$400,000 in legal fees and other compensation.

A Regions Financial spokeswoman, Evelyn Mitchell, did not return a phone call Thursday afternoon seeking comment. Raymond James spokeswoman Anthea Penrose declined to comment.

Lawrence B. Dale filed his claim in 2010 and originally requested relief of \$4.3 million. According to the award, Morgan Keegan “represented to the claimants that the [bond fund] was a safe and conservative investment.”

Mr. Dale alleged that the fund, called the Intermediate Fund, “did not match Morgan Keegan’s misrepresentations, failed to disclose material information, misrepresented values, and invested in structured finance and asset-backed securities” that were unsuitable. Mr. Dale also alleged that the firm failed to supervise its employees properly.

The blowup of the Intermediate Fund and related funds has been a continued source of problems for Morgan Keegan and Regions Financial. The fund at the center of this arbitration claim was one of a group whose net asset values dropped between 60% and 80% in 2007 and 2008, and regulators later charged the firm with overstating the value of mortgage-backed securities in the funds.

Last year, the firm agreed to pay a \$200 million fine to regulators. This month, the Securities and Exchange Commission filed a civil complaint against the funds’ former board members, alleging that they failed to oversee the funds’ managers.

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