



financial abuse

Financial Industry Continues Abuse Of Its Own Clients Through Subprime Investments And Other Debt Products

BY PETER MOUGEY

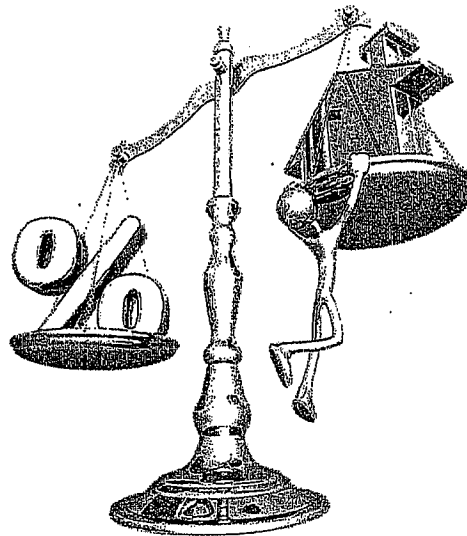
LESS THAN FIVE YEARS AFTER REGULATORS IMPOSED HUNDREDS OF MILLIONS IN PENALTIES ON MAJOR BROKER-DEALERS and expelled several prominent analysts from the financial industry, investors' life savings again are threatened by the industry's bottom line.

Morgan Keegan advised thousands of investors, including those who could not replace lost principal, to withdraw their life savings from CDs and other quality fixed income investments to purchase one of its bond mutual funds, which was assumed to be "safe". However, Morgan's bond mutual funds were hardly the traditional fixed income investments many perceived them to be. Instead, Morgan Keegan stuffed its bond funds full of illiquid subprime loans and other esoteric and difficult to value investments. In fact, so many of the Morgan Keegan bond fund investments could not be priced at "market value," that the firm hired a

consultant in 2007 to help determine the "fair value" of its illiquid CDOs. As many

subprime loans began to default, Morgan's scheme collapsed. Many of the Morgan Keegan bond funds are down approximately 72% from their 2007 values. Many elderly investors, ill-advised to purchase these investments, have lost a significant portion of their life savings.

Similar to the Morgan Keegan bond funds' nose dive, the financial industry pitched auction rate securities to investors as an alternative to "cash equivalents." The industry recommended almost \$300 billion of auction-rate securities to investors as a place to hold cash for those who had short-



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term time horizons. However, investors were unaware of the industry's knowledge regarding the securities' weakness, or that the SEC had already assessed almost \$16 million in fines against several prominent broker-dealers trading those securities. Today, some auction rate securities, including those backed by student loans, pitched as "cash equivalents" just a few months ago, cannot be liquidated for less than a 25% - 50% loss--if they can be liquidated at all. Some of the more "liquid" ARS vehicles cannot be liquidated in the secondary markets without taking a ten to fifteen percent loss.

Retail investors were not the only victims of the subprime and credit market debacle. Many institutions, including municipalities, school districts, labor unions, and pension funds were also misled about purchasing subprime and esoteric credit instruments. Similarly, the frozen market has increased the cost of borrowing, because municipal issuers - cities, hospitals, school districts - are forced to pay the fees and expenses associated with redemptions and restructuring.

Of course, the push to place retail investors in auction-rate securities occurred in late 2007 and early 2008 when broker-dealers were liquidating their positions. To add to the insult, the broker-dealers who operate the now virtually non-existent

auctions are still being paid 25 basis points each year of the life of the securities issued. The broker-dealers also generate banking fees, both when municipal issuers are forced to redeem the securities and again when they unwind the derivative contracts often intertwined with the securities. The final tally: Goose eggs for investors and taxpayers and big fees for the financial industry. Hopefully, responsible counsel for the duped and deceived will redress this fraud.