A History of Financial Abuses

FAI was started because there are ***numerous conflicts of interest, and what FAI feels, are questionable practices in the financial services industry***.

Just look at the financial fiascoes over the last 30 years. In the late 70s and 80s, financial planners sold people all kinds of limited partnerships that the IRS later challenged as abusing the tax laws. Taxpayers paid millions in taxes, penalties and interest as a result of these investments.

In the 80s, the savings and loan industry made bad loans with depositors' money causing the largest government bailout in history. The situation cost taxpayers billions of dollars because the Federal Deposit Insurance Corporation (FDIC) guaranteed depositors they would get their money back even though the S & L's lent it out in bad loans and never got it back..

In the 90s, investment bankers sold stock in questionable dot com start up companies, most of which went bankrupt. Investors lost millions of dollars in these investments.

And since the turn of the century, banks, stockbrokers, financial advisors, mutual funds and insurance companies have paid billions of dollars for fines and the settlements of numerous lawsuits and investigations as a result of various abusive business practices. Read on for a partial list of financial settlements with various companies.

Banks

1. The following were accused of ***failing to adequately examine WorldCom's financial health*** when they sold $17 billion of their bonds in 2000 and 2001 and agreed to pay the following amounts…they made millions in fees and investors lost billions:

   Citigroup $2.6 billion; JP Morgan/Chase $2 billion; Bank of America $461 million; ABN Amro $278 million; and Deutsche Bank Securities $325 million (Source: Wall Street Journal 3-17-05)

2. Citigroup agreed to pay $2 billion and JP Morgan/Chase agreed to pay $2.2 billion to settle class-action lawsuits which charged them with ***helping failed energy trader Enron Corp. to defraud investors.*** (Source: Chicago Tribune 6-11-05)

3. Bank of America agreed to pay $675 million for ***illegal trading in mutual funds.*** (Source: Wall Street Journal 8-26-06)

4. Ameriquest Mortgage agreed to ***pay $325million to resolve allegations of widespread fraud*** as a part of a high-pressure scheme to sell mortgages that trapped consumers into debt and put them at risk of losing their homes. (Source: Washington Attorney General Release 6-28-06)

5. Household International agreed to ***pay $484 million for its conduct related to sub-prime home lending*** and agreed to set a new standard related to this type of lending. (Source: Washington Attorney General Release 6-28-06)

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Stock Brokers / Financial Advisers

1. Ten major Wall Street firms including Citigroup, JP Morgan Chase, Credit Suisse First Boston and Merrill Lynch, agreed to pay $1.4 billion over charges that they provided misleading stock advice to investors for the benefit of investment banking clients. (Source: Online News Hour 12-20-02)

2. Merrill Lynch agreed to pay $80 million to settle an SEC investigation into its dealings with the collapsed Enron. They settled civil charges that they participated in Enron's sham sale of floating power plants which made it appear that Enron met its earnings target in 1999. (Source: Associated Press)

3. Morgan Stanley agreed to pay $50 million to settle allegations that it published fraudulent and misleading research that promoted investment banking clients and harmed investors, and failed to manage conflicts of interest, among other misdeeds. (Source: NY Attorney General Press Release 4-28-03)

4. Edward D. Jones & Company agreed to pay $75 million to settle regulatory charges for improper disclosure of revenue sharing payments. (Source: Associated Press 12-28-04)

5. Merrill Lynch, Wells Fargo & Co. and Linsco / Private Ledger Corp. were fined $14 million, $3 million and $2.4 million for directing investors into mutual fund share classes that cost clients more than necessary and reduced returns while providing brokers with higher commissions. (Source: Wall Street Journal 12-20-05)

6. American Express Financial Advisors, Inc. (now known as Ameriprise Financial Services, Inc.) agreed to pay $30 million to settle charges that it failed to adequately disclose to customers that it received millions of dollars in revenue sharing payments that it received from a select group of mutual funds that it sold to customers. (Source: Securities and Exchange Commission Release 2005-168)

Mutual Funds

1. Prudential Financial, Inc.'s securities unit agreed to pay $600 million to settle allegations that former brokers helped investors rapidly trade mutual fund shares. (Source: Wall Street Journal 8-26-06)

2. Invesco Funds Group agreed to pay $325 million in damages and penalty for allowing illegal market-timing of their funds. (Source: NY Attorney General Release 9-7-2004)

3. Janus Mutual Funds settled to resolve allegations that it permitted excessive market-timing activity in a number of its mutual funds for $226 million. (Source: Colorado Attorney General Release 8-18-04)

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4. MFS Mutual Funds agreed to pay $225 million in fines and penalties to settle charges of improper mutual fund trading. (Source: Financial News 2-15-04)

5. Pilgrim Baxter settled market-timing charges for $100 million. (Source: NY Attorney General Release 6-21-04)

6. Strong Financial and its founder settled charges of improper mutual fund trading for $140 million. (Source: USA Today 5-20-04)

Insurance Companies

1. Marsh & McLennan Co.s agreed to an $850 million settlement for civil charges that its insurance brokerage unit "cheated its clients by rigging bids for corporate insurance contracts". For corporate insurance contracts and steering business to insurers who paid them millions in so-called contingent commissions. (Source: Wall Street Journal 3-10-05)

2. Zurich Financial Services agreed to pay $324 million in settlements linked to bid rigging charges with twelve states. (Source: Wall Street Journal 3-28-06)

3. Aon paid $190 million for soliciting and accepting kickbacks to steer business to favored insurers. This put Aon's interest before their clients' by creating a conflict of interest. (Source: Connecticut Attorney General Release 3-4-05)

4. St. Paul Travelers agreed to pay $77 million to settle a bid-rigging investigation. The company agreed to pay restitution and penalties and agreed to adopt reforms. (Source: Chicago Tribune 8-06)

5. Overall, a probe of the insurance industry began in 2004 and since then, 20 companies have agreed to pay $3 BILLION so far. (Source: Chicago Tribune 8-06)

Now obviously, we're not saying that every company and every person in the financial services industry is participating in these types of activities. But the situations described above make it critical for you to ***Get Smart and make sure you Don't Get Ripped Off*** along the way! And that's what FAI is here to help you with.

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