

Freddie, Fannie, Lehman Brothers & AIG Now On F.B.I. Investigation List

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SUMMARY OF ARTICLE

Promises by President George W. Bush that consensus on a \$700 billion financial bailout plan will be reached shortly are apparently doing little to convince members of Congress who have the final word in making the proposal a reality. Their apprehension is understandable. The original bail-out plan was devoid of any accountability and transparency measures - the very same issues that cost investors millions of dollars and led to the downfall of Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers, American Insurance Group and Washington Mutual.

Now the Federal Bureau of Investigation (F.B.I.), which has been looking into the actions of various financial institutions whose collapse generated the need for the \$700 billion bailout in the first place, has added several more names to its investigation list: mortgage giants Fannie Mae and Freddie Mac, Lehman Brothers and American International Group Inc. (AIG).

Reportedly, law enforcement officials are investigating both the firms and certain senior-level executives for potential actions involving fraud.

Following the subprime meltdown last summer, the F.B.I. launched probes into corporate fraud at some 22 mortgage lenders and investment banks. So far, however, efforts to create a national task force to combat the nation's mortgage fraud crisis have been rejected by Attorney General Michael B. Mukasey, who's publicly compared the problem to "white-collar street crimes."

For investors, however, those white-collar street crimes have cost them plenty. In the case of Bear Stearns investors, the web of lies created by two former hedge fund managers at the once-formidable investment firm - Ralph Cioffi and Matthew Tannin - ultimately produced losses of more than \$1.4 billion.

"Officials at Bear Stearns engaged in a concerted effort to conceal the true state of affairs at both of these hedge funds for an extended period of time before they imploded," said attorney Steve Caruso of Maddox, Hargett & Caruso in New York, one of four firms representing plaintiffs, in a Sept. 23 article in the Public Record.

Ryan Bakhtiari, an attorney with Aidikoff, Uhl & Bakhtiar in Beverly Hills and who also is representing plaintiffs in the Bear Stearns case, puts the actions taken by Cioffi and Tannin another way. He says the former Bear Stearns executives used the hedge funds they managed "as a dumping ground."

"Given Bear Stearns' dominance in the mortgage-backed securities underwriting market, they knew or should have known how much subprime exposure both of these hedge funds faced," Bakhitari said in the Public Record article. "We're finding, in our investigation of these funds, that many investors in these funds simply were unaware of what was being held in their portfolios because it was not adequately disclosed."

As it turns out, Bear Stearns' packaging of mortgage-backed securities packages in ways that inflated their true value was far from an isolated case. The ramifications of the many firms that followed the exact same strategy are now firmly plastered on the television and in the newspapers every day as the government fervently tries to work out a \$700 billion taxpayer-funded package to bail out the nation's seriously troubled financial industry.

Meanwhile, as recently as July 2008, Attorney General Mukasey went on record as saying of the country's mortgage crisis, "I don't see what you call the Enron-type task force. This isn't that type of phenomena."

Our affiliation of securities lawyers is actively involved in advising individual and institutional investors in evaluating their legal options when confronted with subprime and other mortgage-related investment losses.