

From: *Austin American-Statesman*
— December 20, 1995

Retirement system wins \$1.3 million

By **KIM TYSON**
American-Statesman Staff

An Austin jury has awarded \$1.3 million in damages to the Teacher Retirement System of Texas over what it found were improper service charges by a Virginia loan servicing company.

The two-week trial, which ended Friday, concerned the retirement system's \$25 million investment in six apartment developments around the country.

Attorney Eric Fryar said the jury found Reilly Mortgage Group Inc. failed to comply with its servicing contract and intentionally failed to comply with its fiduciary duties to the system.

Fryar said Reilly did not fully disclose the funds it was paying itself.

The pension fund sought but did not receive punitive damages. Reilly services a portfolio of more than \$4 billion for investors, including other state pension funds.

District Judge Joe Hart is expected to enter a judgment on the verdict and rule on the fund's request for \$589,000 in attorneys fees and court costs in January.

From: *Houston Business Journal* — Week of January 5-11, 1996

Attorneys expect \$1.3 million judgment in dispute over teacher retirement funds

By **Kenneth R. Pybus**
Houston Business Journal

Local lawyers for the Teacher Retirement System of Texas are expecting an Austin judge to enter a \$1.3 million judgment this month against a mortgage firm accused of misusing the system's funds.

In mid-December, a jury ordered Reilly Mortgage Group Inc. to pay damages to the Austin-based retirement system for breaches of fiduciary duty and other contractual obligations in the firm's management of \$25 million on behalf of the teachers.

In 1984, the retirement system invested the money in a pool of apartment

mortgage loans insured by the Federal Housing Authority and serviced by Reilly Mortgage, a Virginia-based company.

Lawyers for the system claimed Reilly Mortgage improperly kept funds out of the pool as "servicing compensation" and failed to report to the system the amounts taken.

"These practices are not uncommon, so there may be some fallout from this trial," says Eric Fryar, a partner at Houston law firm of Susman Godfrey who represents the retirement system.

Fryar says it may be the first lawsuit by an investor challenging a mortgage servicer's right to withhold funds without making full disclosure.