



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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CONNECTICUT RMBS TRADER CHARGED WITH SECURITIES FRAUD, DEFRAUDING TARP PROGRAM

WASHINGTON, DC - Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and David B. Fein, United States Attorney for the District of Connecticut, announced that a federal grand jury sitting in New Haven has returned a 16-count indictment charging JESSE C. LITVAK, 38, of New York, N.Y., with securities fraud, Troubled Asset Relief Program (TARP) fraud and making false statements to the federal government. The indictment alleges that LITVAK, while a registered broker-dealer and managing director at Jefferies & Co., Inc., engaged in a scheme to defraud customers on residential mortgage-backed securities (RMBS) trades. LITVAK's victims are alleged to have included numerous investment funds, including six funds that the Department of Treasury established in 2009, as part of the federal government's response to the financial crisis.

The indictment was returned on January 25, 2013, and LITVAK was arrested at his home this morning by SIGTARP agents.

"As most Americans tried to keep their heads above water during the financial crisis, Jesse Litvak is charged with trying to profit from the taxpayer-funded bailout known as TARP," said Special Inspector General for TARP Christy Romero. "The charges paint a picture of Litvak shamelessly lying to dupe the Government into overpaying for mortgage securities with bailout funds. Today's charges should stand as a warning to all who target bailout money: We will work with our partners to uncover and stop bailout crime, and to investigate, prosecute, and punish those responsible. I want to commend United States Attorney David Fein for his commitment to fighting TARP-related crime."

"As alleged, the defendant defrauded six funds established by Treasury and funded principally with government bailout money," said U.S. Attorney Fein. "Illegally profiting from a federal program designed to assist our nation in recovering from one of our worst economic crises is reprehensible. I commend SIGTARP for its diligent work on this ongoing investigation. The U.S. Attorney's Office and our RMBS Working Group partners are committed to investigating fraud and abuse that helped lead to the 2008 financial crisis, as well any fraud related to the government's response to the crisis."

This prosecution has been brought in coordination with the RMBS Working Group, and relates to alleged fraud committed against the government in response to the financial crisis through the pooling and sale of RMBS. The RMBS Working Group is a joint federal and state initiative created last year to investigate those responsible for misconduct contributing to the financial crisis. RMBS were pools of mortgages deposited into trusts and then sold as securities to investors who were to receive a stream of income from the mortgages packaged in the RMBS.

As detailed in the indictment, in 2009, the U.S. Department of Treasury began the Legacy Securities Public-Private Investment Program (PPIP), in response to the financial crisis, using more than \$22 billion of bailout money from TARP to restart the trading market for certain kinds of RMBS, among other troubled securities. Over 100 firms applied to manage one of the nine PPIP funds established under the program, each of which received between \$1.4 billion and \$3.7 billion of bailout money from TARP to invest alongside private capital.

According to the indictment, LITVAK was a senior trader and managing director at Jefferies & Co, Inc. ("Jefferies"), a global securities and investment banking firm headquartered in New York. Jefferies also has a trading floor in Stamford, Conn., where LITVAK and other members of its Mortgage and Asset-Backed Securities trading group worked. The indictment alleges that LITVAK engaged in a scheme to defraud based on two different types of misrepresentations. In certain transactions, LITVAK misrepresented the RMBS seller's asking price to the buyer, or misrepresented the buyer's price to the seller, keeping the difference between the price paid by the buyer and the price paid to the seller for Jefferies. In other transactions, LITVAK misrepresented to the RMBS buyer that bonds held in Jefferies' inventory were being offered for sale by a fictitious third-party seller invented by LITVAK, which allowed LITVAK to charge the buyer an extra commission that Jefferies was not entitled to.

Through these schemes, it is alleged that LITVAK defrauded six PPIP funds and multiple private investment funds of a total of more than \$2 million.

The indictment charges LITVAK with 11 counts of securities fraud, which carry a maximum term of imprisonment of 20 years on each count, one count of TARP fraud, which carries a maximum term of imprisonment of 10 years, and four counts of making false statements to the federal government, which carry a maximum term of imprisonment of five years on each count.

The case is assigned to United States District Judge Janet C. Hall in New Haven.

Today's announcement is part of the ongoing efforts of President Obama's Financial Fraud Enforcement Task Force's RMBS Working Group, a federal and state law enforcement effort focused on investigating fraud and abuse in the RMBS market that helped lead to the 2008 financial crisis. The RMBS Working Group, which is chaired by Attorney General Eric Holder, brings together more than 200 attorneys, investigators, analysts and staff from dozens of state and federal agencies including the Department of Justice, ten U.S. Attorneys' Offices, the FBI, the Securities and Exchange Commission, the Department of Housing and Urban Development (HUD), HUD's Office of Inspector General, the Federal Housing Finance Agency's Office of Inspector General, the Office of the Special Inspector General for the Troubled Asset Relief Program, the Federal Reserve Board's Office of Inspector General, the Recovery Accountability and Transparency Board, the Financial Crimes Enforcement Network, and more than ten state Attorneys General offices around the country.

This case is being prosecuted by Assistant United States Attorneys Jonathan Francis and Eric Glover.

U.S. Attorney Fein stressed that an indictment is not evidence of guilt. Charges are only allegations, and each defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt.

The RMBS Working Group is led by five co-chairs: Assistant Attorney General for the Justice Department's Criminal Division Lanny Breuer, Principal Deputy Assistant Attorney General for the Justice Department's Civil Division Stuart Delery, U.S. Attorney for the District of Colorado John Walsh, Director of Enforcement for the SEC Robert Khuzami and New York State Attorney General Eric Schneiderman.

The RMBS Working Group Coordinator is Matthew Stegman. For more information about the RMBS Working Group and the Financial Fraud Enforcement Task Force, please visit: www.StopFraud.gov.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP.

To report suspected illicit activity involving TARP, dial the **SIGTARP Hotline**: 1-877-SIG-2009 (1-877-744-2009).

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