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FORMER SENIOR RMBS TRADER SENTENCED TO FEDERAL PRISON

WASHINGTON, DC - Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Deirdre M. Daly, United States Attorney for the District of Connecticut; and Patricia M. Ferrick, Special Agent in Charge of the New Haven Division of the Federal Bureau of Investigation (FBI), today announced that Jesse C. Litvak, a registered broker-dealer and former managing director at New York investment bank Jefferies & Co., Inc. (Jefferies), was sentenced today by Chief U.S. District Judge Janet C. Hall in New Haven to 24 months of federal imprisonment, followed by three years of supervised release, for defrauding customers trading in residential mortgage-backed securities (RMBS). Litvak was also ordered to pay a fine of \$1.75 million.

"Today's sentencing sends a clear message that lying in the already opaque markets of mortgage backed securities to drive up prices for the sake of profits is a crime that will result in years in federal prison," said Christy Romero, Special Inspector General for TARP (SIGTARP). "When caught by a customer trading with taxpayer bailout dollars, senior bond trader Litvak said it was a 'hard year' and 'guys were doing what they needed to make money.' The fact is that it was a hard year for everyone in that market. The government used taxpayer dollars in a TARP bailout program to help restart a frozen mortgage backed securities market, but Litvak saw it as a criminal opportunity. Litvak bragged in online chats about lying to customers and driving up prices, conduct that ultimately resulted in \$6.3 million in fraudulent profits for his firm, Jefferies. Litvak knew full-well that some of those customers were funds filled with taxpayer dollars, and he has zero remorse for ripping off those customers and jeopardizing the integrity of the bailout program, all for the sake of pure greed. I want to thank U.S. Attorney Deirdre Daly for standing united with SIGTARP in the fight against bailout-related crime."

"For nearly three years, Jesse Litvak lied over 70 times to numerous Jefferies' customers, cheating them and stealing their investors' money," stated U.S. Attorney Daly. "While Litvak was being paid millions as a trader and managing director, he defrauded dozens of victims resulting in over six million dollars in loss to investors. The victim investors included pension funds for teachers, firefighters, police officers, and other state or municipal employees, as well as taxpayer-provided bailout funds that helped our nation to recover from the 2008 financial meltdown. This sentence serves as a warning bell to those who risk engaging in such corrupt practices. We hope that this prosecution will act as a forceful disincentive to market participants tempted to commit securities fraud. We commend SIGTARP and the FBI for their outstanding work on this investigation."

On March 7, 2014, a jury found Litvak guilty of 10 counts of securities fraud, one count of TARP fraud, and four counts of making false statements to the federal government. According to the evidence introduced during the trial, in response to the 2008 financial collapse, the U.S. Department of Treasury introduced the Legacy Securities Public-Private Investment Program (PPIP) and used more than \$22

billion of bailout money from the Troubled Asset Relief Program (TARP) to restart the trading markets for many troubled securities, including certain kinds of RMBS. The program created nine PPIP funds, and more than 100 firms applied to manage the funds. TARP infused between \$1.4 billion and \$3.7 billion of bailout money into each of the PPIP funds that was to be invested alongside private capital.

Litvak, 39, of New York, N.Y., was a senior trader and managing director at Jefferies, a global securities and investment banking firm headquartered in New York. Jefferies also had a trading floor in Stamford, Conn., where Litvak and other members of its Mortgage and Asset-Backed Securities trading group worked. Between February 2009 and October 2011, Litvak engaged in a scheme to defraud Jefferies' customers based on two types of misrepresentations. First, as a broker-dealer, only Litvak – not the bond seller or buyer – knew the selling and asking prices of the parties. Litvak exploited this information by misrepresenting the RMBS seller's asking price to the buyer and by misrepresenting the buyer's asking price to the seller. By fraudulently increasing the difference or "spread" between the price paid by the buyer and the price paid to the seller, Litvak pocketed the difference for Jefferies. Second, Litvak took bonds held in Jefferies' inventory and sold them to RMBS buyers only after inventing a fictitious third-party seller. This ruse allowed Litvak to charge the buyer an extra commission that Jefferies was not entitled to because it was selling bonds it held in its own inventory.

Litvak perpetrated this scheme more than 70 occasions against numerous PPIP funds and private investment funds, netting Jefferies more than \$6.3 million in fraudulent profits.

Litvak has been released on bond since his arrest on January 28, 2013. He was ordered to report to prison by November 5, 2014.

The investigation of this matter revealed that members of Jefferies' management in the fixed income division became aware that Jefferies employees were making misrepresentations to customers and did nothing to stop it. Jefferies has cooperated with the federal criminal investigation and, on January 29, 2014, agreed to pay a total penalty of \$25 million as part of a non-prosecution agreement with the government. The penalty includes up to \$11 million in restitution to victims and up to a \$4,200,402 penalty to the U.S. Securities and Exchange Commission (SEC). Jefferies also agreed to address deficiencies in the compliance and ethics practices and policies of its Mortgage and Asset-Backed Securities Trading group. These measures include Jefferies' agreement to retain an Independent Compliance Consultant to conduct a review of Jefferies' policies and procedures for detecting and preventing fraud in connection with the purchase or sale of RMBS.

U.S. Attorney Daly noted that the criminal investigation of individuals and institutions involved in fraudulent RMBS trading activities remains active and ongoing.

This matter is being investigated by SIGTARP and the FBI. The case is being prosecuted by Assistant U.S. Attorneys Jonathan Francis and Christopher Mattei.

This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. SIGTARP is a member of the task force. To learn more about the President's 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.

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