



SIGTARP

Office of the Special Inspector General
For The Troubled Asset Relief Program

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Media Inquiries: 202-927-8940

Twitter: @SIGTARP

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INDICTMENT CHARGES FORMER CANTOR FITZGERALD RMBS TRADER WITH SECURITIES FRAUD

Victims of Alleged Scheme Include TARP's Public-Private Investment Program

Christy Goldsmith Romero, the Special Inspector General for the Troubled Asset Relief Program, Deirdre M. Daly, United States Attorney for the District of Connecticut, Patricia M. Ferrick, Special Agent in Charge of the New Haven Division of the Federal Bureau of Investigation, Laura S. Wertheimer, the Inspector General for the Federal Housing Finance Agency, and Fred Gibson, the Acting Inspector General for the Federal Deposit Insurance Corp., today announced that a federal grand jury in New Haven has returned an indictment charging former Cantor Fitzgerald & Co. bond trader, DAVID DEMOS, 35, of Westport, with six counts of securities fraud.

"Former Cantor Fitzgerald & Co. bond trader David Demos allegedly conspired to overcharge customers trading residential backed mortgage securities, including an investment firm that managed TARP's Public-Private Investment Program (PPIP) funds," said Special Inspector Goldsmith Romero. "In other words, victims of this alleged scheme – which involved the same type of securities that were at the heart of the financial crisis – include the manager of a taxpayer provided-bailout fund that was created to unlock frozen credit markets during that same crisis. I want to commend U.S. Attorney Deirdre Daly for her steadfast commitment to fighting TARP-related crime."

The indictment was returned on December 7. DEMOS is scheduled to be arraigned today at 3:30 p.m. before U.S. Magistrate Judge Sarah A. L. Merriam in New Haven.

According to the indictment, residential mortgage-backed securities (RMBS) are collections of mortgages and home equity loans, which are grouped together and sold as packages between and among banks, money managers, pension funds and others. Investors in RMBS receive payments on a monthly basis. Those payments are based on the extent to which homeowners, who had originally taken out the mortgages or loans, repaid their lenders. The payments to RMBS investors continue until the homeowners repay their mortgage debt, refinance or default. Unlike stocks that trade on the New York Stock Exchange or the NASDAQ, RMBS are not publicly traded on an exchange and pricing information is not publicly available. Instead, buyers and sellers of RMBS use broker-dealers, like Cantor Fitzgerald, to execute individually negotiated transactions.

DEMOS was a trader and managing director at Cantor Fitzgerald from November 2011 until his employment was terminated in February 2013. The indictment alleges that DEMOS defrauded customers by fraudulently inflating the purchase price at which Cantor Fitzgerald could buy a RMBS

bond to induce their victim-customers to pay a higher price for the bond, and by fraudulently deflating the price at which Cantor Fitzgerald could sell a RMBS bond to induce their victim-customers to sell bonds at cheaper prices.

It is alleged that, as a result of this scheme, Cantor Fitzgerald and DEMOS profited illegally, and victim-customers sustained millions of dollars of losses. The victims of this alleged scheme include asset managers and firms affiliated with or subsidiaries of recipients of funds from the U.S. Government's Troubled Asset Relief Program (TARP). If convicted of the charges in the indictment, DEMOS faces a maximum term of imprisonment of 20 years on each count.

U.S. Attorney Daly stressed that an indictment is not evidence of guilt. Charges are only allegations, and a defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt. The case has been assigned to U.S. District Judge Alvin W. Thompson in Hartford.

This matter is being investigated by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), Federal Deposit Insurance Corp—Office of Inspector General, the Federal Bureau of Investigation, and the Office of Inspector General—Federal Housing Finance Agency. The case is being prosecuted by Assistant U.S. Attorneys Heather Cherry and Jonathan Francis.

Today's announcement is part of the ongoing efforts of President Obama's Financial Fraud Enforcement Task Force's Residential Mortgage-Backed Securities (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 and in the federal government's bailout. The RMBS Working Group brings together attorneys, investigators, analysts and staff from dozens of state and federal agencies including the Office of the Special Inspector General for the Troubled Asset Relief Program, the Department of Justice, U.S. Attorneys' Offices, the FBI, the Securities and Exchange Commission (SEC), the Department of Housing and Urban Development (HUD), HUD's Office of Inspector General, the FHFA-OIG, the Federal Reserve Board's Office of Inspector General, the Recovery Accountability and Transparency Board, the Financial Crimes Enforcement Network, and state Attorneys General offices around the country.

For more information about the RMBS Working Group and the Financial Fraud Enforcement Task Force, which is chaired by Attorney General Loretta Lynch, visit www.stopfraud.gov.

About SIGTARP

SIGTARP's cross-cutting authority enables us to investigate and conduct oversight over all organizations and individuals involved in TARP programs. Our analytical, experienced-based approach identifies hidden complex crime and we work with the U.S. Department of Justice to hold accountable individuals and institutions that break the law. SIGTARP's oversight prevents fraud and drives improvements in ongoing TARP programs. As of October 20, 2016, SIGTARP investigations have resulted in the recovery of \$10.29 billion to the government and 163 defendants sentenced to prison.

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