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FOR IMMEDIATE RELEASE
Friday, March 7, 2014

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FORMER SENIOR RMBS TRADER CONVICTED OF DEFRAUDING TARP

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, Conn., Division of the Federal Bureau of Investigation, today announced that a federal jury in New Haven has convicted Jesse C. Litvak, a registered broker-dealer and former managing director at New York investment bank Jefferies & Co., Inc., of multiple offenses involving a scheme to defraud customers trading in residential mortgage-backed securities (RMBS). The jury convicted Litvak on all counts, including ten counts of securities fraud, one count of defrauding the Troubled Asset Relief Program (TARP), and four counts of making false statements within the jurisdiction of the United States Government.

The trial before Chief U.S. District Judge Janet C. Hall began on February 18, and the jury returned its verdict today after deliberating for approximately two days.

“This afternoon, Jesse Litvak, a former senior trader at New York investment bank Jefferies & Co., was convicted of lying through his teeth to defraud American taxpayers out of their hard-earned TARP investments,” said Christy Romero, Special Inspector General for TARP (SIGTARP). “The defendant was the first person SIGTARP arrested for a crime related to the TARP bailout program known as PPIP, and he is now the first person convicted of a crime related to that program. Trading in mortgage securities can be a complicated business, but what the defendant did was simple – he lied to, defrauded, and illegally overcharged customers out of pure greed to benefit Jefferies and himself. Some of those customers were taxpayers who funded the TARP bailout. I would like to thank Assistant U.S. Attorneys Jonathan Francis and Eric Glover for their hard work and the deftness with which they prosecuted the case. SIGTARP and our law enforcement partners stand united in protecting taxpayers’ TARP investments, and we will track down perpetrators of TARP fraud and ensure they receive swift justice.”

“Today’s verdict shows plainly and powerfully that Wall Street professionals are not above the law,” said U.S. Attorney Daly. “A lie is a lie, and fraud is fraud. The jury rightly rejected Mr. Litvak’s shameful claim that he did nothing wrong because many on Wall Street engage in the same conduct. The defendant manipulated facts and made self-serving misrepresentations about the bonds he was buying and selling in a scheme that netted him and his employer more than $2 million in ill-gotten gain. His crime caught the attention of the Attorney General’s RMBS Working Group because much of that $2 million was from the defendant’s scheme to defraud a federal program created with taxpayer money to aid our nation in recovering from the 2008 financial meltdown. I want to acknowledge SIGTARP and the FBI for their incredible work on this ongoing investigation. The U.S. Attorney’s Office and our RMBS Working Group partners remain highly committed to investigating the fraud and abuse that helped lead to the 2008 financial crisis, particularly where that fraud is related to the government’s response to the crisis.”

According to the evidence introduced during the three-week 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 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 & Co, Inc. ("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.

The jury found that Litvak engaged in a scheme to defraud 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. Having fraudulently manufactured a gap, Litvak, on behalf of Jefferies, pocketed the difference in the price paid by the buyer and the price paid to the seller. 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.

Through these schemes, Litvak defrauded numerous PPIP funds and multiple private investment funds of a total of more than $2 million.

Litvak was found guilty of ten counts of securities fraud, a charge that carries 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 three counts of making false statements to the federal government, a charge that carries a maximum term of imprisonment of five years on each count.

Judge Hall scheduled sentencing for May 30, 2014. Litvak has been released on bond since his arrest on January 28, 2013.

This matter is being investigated by SIGTARP and the Federal Bureau of Investigation. The case is being prosecuted by Assistant U.S. Attorneys Jonathan Francis and Eric Glover.

This prosecution was brought in coordination with the RMBS Working Group, a joint federal and state initiative created to investigate those responsible for misconduct contributing to the 2008 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. 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, SIGTARP, 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 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. The RMBS Working Group is part of 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 RMBS Working Group and 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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