



SIGTARP

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

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FORMER RMBS TRADER SENTENCED TO 2 YEARS IN PRISON, FINED \$2 MILLION, FOR SECURITIES FRAUD

Victimized customers included a fund trading with taxpayer dollars, part of a TARP program that unlocked frozen credit markets during the crisis

Christy Goldsmith 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, announced that JESSE C. LITVAK, 42, of Boca Raton, Fla., was sentenced today by Chief U.S. District Judge Janet C. Hall in New Haven to 24 months of imprisonment, followed by three years of supervised release, for engaging in fraudulent residential mortgage-backed securities (RMBS) trades. Chief Judge Hall also ordered LITVAK to pay a \$2 million fine.

“Today former Jefferies trader Jesse Litvak was sentenced to federal prison for lying to customers about the prices of residential mortgage backed securities to criminally enrich his firm’s profit and his bonus based on the profit,” said Christy Goldsmith Romero, Special Inspector General for TARP. “This fraudulent pursuit of profit victimized customers including a fund trading with taxpayer dollars – part of a TARP program that unlocked frozen credit markets during the crisis. Despite making more than \$15 million in four years, Litvak was motivated by greed to lie in 76 trades with 35 victims. Now Litvak has faced justice for his crimes. Since his arrest by SIGTARP special agents, broker dealers have changed their sale practices to prevent this type of fraud. SIGTARP commends U.S. Attorney Daly and prosecutors Jonathan Francis, Heather Cherry and William Nardini and for fighting crime in the residential mortgage backed securities market.”

“This sentence sends an unequivocal message that fraud in the residential mortgage backed securities trading market will be met with serious punishment,” said U.S. Attorney Daly. “Jesse Litvak took advantage of his victims through his repeated and brazen lies, and as the Court correctly found, Litvak’s lies led to more than \$6 million in unearned profits for his employer. Simply put, Litvak lied to investors to cheat them and make more money for himself. This has been a demanding and lengthy prosecution. I thank our prosecutors and the SIGTARP and FBI agents for their tireless professionalism throughout this case. Our criminal investigations of individuals and institutions involved in fraudulent RMBS trading activities remain active and ongoing.”

“The prison term imposed today serves as another example that justice prevails over greed, deceit and criminal behavior,” said FBI Special Agent in Charge Ferrick.

On January 27, 2017, a jury found LITVAK guilty of one count of securities fraud. 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 billions of dollars 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.

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 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. 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 to his PPIP fund victim the price Jefferies paid for a RMBS bond in order to increase Jefferies’ profit on the trade. LITVAK has been released on bond since his arrest on January 28, 2013.

On March 7, 2014, LITVAK was convicted after trial of 10 counts of securities fraud, one count of TARP fraud and three counts of making false statements to the government. Chief Judge Hall subsequently sentenced him to 24 months of imprisonment and a fine of \$1.7 million. LITVAK appealed his conviction and, on December 8, 2015, the U.S. Court of Appeals for the Second Circuit reversed the judgment of conviction as to the TARP fraud and making false statement charges, and remanded the matter for a new trial on the securities fraud charges.

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 paid a total penalty of \$25 million as part of a non-prosecution agreement with the government. The penalty included 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 addressed deficiencies in the compliance and ethics practices and policies of its Mortgage and Asset-Backed Securities Trading group. These measures included 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.

This matter was investigated by SIGTARP and the Federal Bureau of Investigation. The case was prosecuted by Assistant U.S. Attorneys Jonathan Francis, Heather Cherry and William Nardini.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency that targets financial institution crime and is an independent watchdog protecting taxpayer dollars. As of April 7, 2017, SIGTARP investigations have resulted in the recovery of \$10 billion to the government and 203 defendants sentenced to prison.

To report a suspected crime related to TARP, call SIGTARP’s Crime Tip Hotline: 1-877-744-2009. To receive alerts about reports, audits, media releases, and other SIGTARP news, sign up at www.SIGTARP.gov. Follow SIGTARP on Twitter @SIGTARP.

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