U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 21061 / May 28, 2009

SECURITIES AND EXCHANGE COMMISSION v. WILLIAM BETTA, JR., ET AL., Civil Action No. 09-80803-Civ-Marra/Johnson (S.D. Fla.)

SEC CHARGES TEN BROKERS WITH FRAUD RELATED TO MORTGAGE BACKED SECURITIES

The Securities and Exchange Commission today charged ten brokers with fraud related to mortgage backed securities known as Collateralized Mortgage Obligations ("CMOs"). The ten brokers had all worked for Irvine, California-based Brookstreet Securities Corp., a now defunct broker-dealer. The Brookstreet brokers allegedly represented to their customers that the securities were safe and suitable for retirees and conservative investors, when in fact they were not.

In its complaint, filed in federal district court in West Palm Beach, Florida, the Commission alleges that William Betta, Jr., James J. Caprio, Troy L. Gagliardi, Barry M. Kornfeld, Clifford A. Popper, Alfred B. Rubin, and Steven I. Shrago, all of Central or South Florida, Travis A. Branch of Kailua, Hawaii, Russell M. Kautz of Medford, Oregon, and Shane A. McCann of Florence, Montana, defrauded over 750 customers by selling them risky types of CMOs between 2004 and 2007.

According to the Commission's complaint, the defendants told their customers that the CMOs in which they would invest were safe, secure, liquid investments that were suitable for retirees and investors with conservative investment goals. The complaint alleges that contrary to these representations, the defendants invested in risky types of CMOs that: (1) were not all guaranteed by the United States government; (2) jeopardized customers' yield and principal; (3) were largely illiquid; and (4) were only suitable for sophisticated investors with a high-risk investment profile. The complaint alleges that the defendants received $18 million in commissions and salaries related to CMO investments.

The complaint also alleges that some defendants told customers that they would use margin, or the ability to borrow money to purchase CMOs, only sparingly, when in fact they heavily margined customers' accounts, resulting in losses of over $36 million.

The Commission's complaint specifically alleges that the defendants violated the antifraud provisions of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The Commission seeks permanent injunctive relief, disgorgement of ill-gotten gains with prejudgment interest, and civil monetary penalties.

The Commission wishes to acknowledge the assistance of the Financial Industry Regulatory Authority.

The Commission's investigation is ongoing.

- SEC Complaint in this matter

http://www.sec.gov/litigation/litreleases/2009/lr21061.htm
