



U.S. Securities and Exchange Commission

SEC Charges 10 Brokers with Fraud for Disguising Risks of Investing in Mortgage-Backed Securities

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Washington, D.C., May 28, 2009 — The Securities and Exchange Commission today charged 10 brokers with fraud for falsely marketing investments in derivatives of mortgage-backed securities as safe and suitable for retirees and others with conservative investment goals. The SEC alleges that the brokers enriched themselves with millions of dollars in commissions and salaries while the investors suffered millions of dollars in losses.

Additional Materials

- ▶ [Litigation Release No. 21061](#)
- ▶ [SEC Complaint](#)

According to the SEC's complaint, filed in federal district court in West Palm Beach, Fla., the 10 brokers worked for Irvine, Calif.-based Brookstreet Securities Corp., which has since gone out of business. The SEC alleges that the brokers did not clearly define the risks to customers before investing their money in particularly risky Collateralized Mortgage Obligations (CMOs).

The SEC's complaint charges Florida residents William Betta, Jr., James J. Caprio, Troy L. Gagliardi, Barry M. Kornfeld, Clifford A. Popper, Alfred B. Rubin, and Steven I. Shrago as well as Travis A. Branch of Kailua, Hawaii, Russell M. Kautz of Medford, Ore., and Shane A. McCann of Florence, Mont.

"These brokers disguised the risks of investing in these derivatives of mortgage-backed securities, exposing their customers to substantial losses as the subprime crisis emerged," said Robert Khuzami, Director of the SEC's Division of Enforcement. "They disregarded their customers' needs and used deceptive and misleading tactics to enrich themselves at their clients' expense."

Rosalind R. Tyson, Director of the SEC's Los Angeles Regional Office, added, "These brokers took customers primarily interested in protecting their money and pushed them into risky derivative investments through blatant misrepresentations."

According to the SEC's complaint, the defendants portrayed particularly risky types of CMOs as secure investments to defraud more than 750 customers, ultimately costing them more than \$36 million in losses. Meanwhile, the 10 brokers received \$18 million in commissions and salaries related to their customers' investments in CMOs.

The SEC alleges that contrary to the representations they made to their customers, the defendants invested in risky types of CMOs that were highly

sensitive to changes in interest rates and jeopardized customers' yield and principal. They were not all guaranteed by the U.S. government as the defendants told their customers, and they were not suitable for retirees or investors with conservative investment objectives.

The SEC further alleges that the defendants told customers that they only sparingly would use margin, which is the ability to borrow money to purchase CMOs. In fact, they heavily margined customers' accounts, resulting in the more than \$36 million in losses.

The SEC's complaint 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 financial penalties.

The Commission wishes to acknowledge the assistance of the Financial Industry Regulatory Authority, which today brought its own complaint alleging fraud and suitability violations against six additional former Brookstreet brokers.

The Commission's investigation is ongoing.

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