
NYT: Financial Adviser Sidesteps Prison in Bond-Rigging Case.

The names read like signposts on the highway of financial hardship — Detroit; Jefferson County, Ala.; San Bernardino and Vallejo, Calif.

All have gone bankrupt in the last few years. But they also have another thing in common: They were victims of a vast bid-rigging scheme engineered by a Beverly Hills businessman, David Rubin, who tainted hundreds of municipal bond deals across the country and helped global banks cheat cities out of millions of dollars.

Despite prosecutors' recommendation for a prison sentence of at least 19 years, however, Mr. Rubin was sentenced on Wednesday to two years of probation for his role in the scheme. About 20 former bankers from five financial institutions — JPMorgan Chase, Bank of America, GE Capital, UBS and Wells Fargo — are also being prosecuted on suspicion of taking part in the conspiracy.

Mr. Rubin, who pleaded guilty to three counts of conspiracy and conspiracy to restrain trade in 2011, was also ordered to pay $5.65 million in penalties and restitution, adding slightly to a pot of more than $740 million that has been recovered from some of the banks he worked with. The money is to go back to the local governments that have not been made whole for their losses.

Judge Kimba M. Wood of Federal District Court in Manhattan said that despite Mr. Rubin's crimes, sending him to prison would be "a gross injustice" because of extraordinary circumstances. His indictment coincided with his wife's learning she has pancreatic cancer.

Judge Wood added that Mr. Rubin and his wife have seven children, including three minors whom he "has to raise while his wife suffers."

Judge Wood also noted that Mr. Rubin had decided to cooperate with federal prosecutors and had spent time providing evidence and testimony in the trial of a former UBS banker, Peter Ghavami, who was convicted in August 2012. She took it as a sign that he was getting "back on the right path," adding, "Mr. Rubin's character is now strong." After hearing the sentence, Mr. Rubin broke down in tears frequently as he told the court how ashamed he was and how sorry he was that he had put his wife through a terrible ordeal.

"I am truly sorry," he said. "I do not want this to be my legacy, and I will spend the rest of my days working to restore myself in the eyes of my family and friends."

Much of the sentencing hearing was spent resolving differences between the prosecutors, led by Rebecca Meiklejohn, and Mr. Rubin's lawyers over whether the damage his actions had caused could be measured accurately. The law requires Mr. Rubin to make whole the municipalities that suffered losses, but some of them have already had recoveries from the payments made by the five banks.

To help calculate Mr. Rubin's share of the restitution, they gave the court a list of places where bond deals were rigged, kickbacks paid or other crimes committed. The list did not try to identify every place that was harmed, only those where the government said it believed it could measure the harm accurately.

Even so, Mr. Rubin's defense lawyers argued that many of the tainted deals were tailored to each community's needs, so there was no market where prices were set. As a result, it was impossible to say how Mr. Rubin's interference with the market had affected the prices, they said.

Although Mr. Rubin's firm, CDR Financial Products, is not a household name, he worked with some of the biggest names in banking and was embroiled in public finance episodes that later became notorious. The former governor of New Mexico, Bill Richardson, withdrew his name from consideration as commerce secretary in 2009 because federal agents were investigating his ties to Mr. Rubin, who had contributed $100,000 to two of Mr. Richardson's political action committees and was subsequently hired to work on state bond deals. Mr. Richardson was not charged with any wrongdoing.

And Jefferson County, Ala., hired Mr. Rubin to monitor its extraordinarily large derivatives portfolio, which collapsed, contributing to the county's $4 billion bankruptcy in 2011.

The criminal activity grew out of the fact that when cities and other local governments raise money by selling municipal bonds, they usually seek financial institutions to hold it for them safely, pay some interest and distribute the money to them when they need it.

Smaller municipalities find it hard to comparison-shop for such tailor-made investment contracts, so they often work with brokers who are supposed to find the best deals. Mr. Rubin was one such broker, but not a neutral one, according to the Justice Department's antitrust division. Instead, he held sham auctions and steered business to favored financial institutions, which then kicked back money to him. As the conspiracy matured, it became popular to sell municipalities on bond deals that supposedly saved them money by using variable-rate bonds that were then hedged by derivatives called interest-rate swaps. Mr. Rubin helped financial institutions win contracts as swap counterparties and laundered illicit payments as "swap fees."

A number of localities were left with more debt than they could easily pay, or with unexpectedly costly swap contracts that they could not get out of without paying onerous termination fees. In some places, the public works projects were failures but the local residents still had to pay back the bonds.

The cases involving the former bankers are being heard in other courts and are at various stages, with some pleading guilty, some awaiting trial, some convicted, and some of those convicted seeking new trials because of what they say are prosecutorial errors.

By MARY WILLIAMS WALSH