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Tragic fallout from Madoff's Ponzi scheme

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Key points

The paper losses of Bernie Madoff's fraud totalled $US64.8 billion.

In February 2020, he said he expressed remorse for his 'terrible mistake'.

Bernard Madoff at court in March 2009. He was described as "the most hated man in New York". PHOTO: THE NEW YORK TIMES

New York | Bernard Madoff, the one-time senior statesman of Wall Street who in 2008 became the human face of an era of financial misdeeds and missteps for running the largest and possibly most devastating Ponzi scheme in financial history, died yesterday (AEST) in a federal prison hospital in Butner, North Carolina. He was 82.

The Federal Bureau of Prisons confirmed the death.

Madoff, who was serving a 150-year prison sentence, had asked for early release in February 2020, saying in a court filing that he had less than 18 months to live after entering the final stages of kidney disease and that he had been admitted to palliative care.

In interviews with *The Washington Post* at the time, Madoff expressed remorse for his misdeeds, saying he had "made a terrible mistake".

Madoff's fraud began among friends, relatives and country club acquaintances in Manhattan and Long Island — a population that shared his professed interest in Jewish philanthropy — but ultimately grew to encompass major charities such as Hadassah, universities such as Tufts and Yeshiva, institutional investors, and wealthy families in Europe, Latin America and Asia.

Buttressed by elaborate account statements and a deep reservoir of trust from his investors and regulators, Madoff steered his fraud scheme safely through a severe recession in the early 1990s, a global financial crisis in 1998 and the anxious aftermath of the terrorist attacks in September 2001. But the financial meltdown that began in the mortgage market in mid-2007 and reached a climax in September 2008 was his undoing.

Hedge funds and other institutional investors, pressured by demands from their own clients, began to take hundreds of millions of dollars from their Madoff accounts. By December 2008, more than $US12 billion had been withdrawn and little fresh cash was coming in to cover redemptions.

Faced with ruin, Madoff confessed to his two sons that his supposedly profitable money-management operation was actually "one big lie". They reported his confession to law enforcement and the next day, December 11, 2008, he was arrested at his Manhattan home.

His victims, some of whom went overnight from comfortable wealth to frantic desperation, numbered in the thousands and were scattered from Palm Beach, Florida, to the Persian Gulf. The paper losses totalled $US64.8 billion, including the fictional profits he had credited to customer accounts over at least two decades.

More than money was lost. At least two people, in despair over their losses, committed suicide. A Madoff investor suffered a fatal heart attack after months of litigation over his role in the scheme. Some investors lost their homes. Others lost the trust and friendship of relatives and friends they had inadvertently steered into harm's way.

Madoff was not spared. His older son, Mark, committed suicide in his Manhattan apartment on December 11, 2010, the second anniversary of his father's arrest.

In June 2012, Bernard Madoff's brother, Peter, a lawyer, pleaded guilty to federal tax and securities fraud charges related to his role as the chief compliance officer at his brother's firm, but he was not accused of knowingly participating in the Ponzi scheme.

In December 2012, he forfeited all his personal property to the government to compensate his brother's victims and was sentenced to a 10-year prison term. And on September 3, 2014, Madoff's younger son, Andrew, died of cancer at the age of 48. He had blamed the stress of the scandal for the return of the cancer he had fought off in 2003.

Mark Madoff, here with wife Stephanie, committed suicide in 2010. PHOTO: AP

Bernard Lawrence Madoff was born in Brooklyn on April 29, 1938, to Ralph and Sylvia (Muntner) Madoff, both the children of working-class immigrants from eastern Europe.

He grew up in Laurelton, at the southern edge of Queens It was there that he met and, in 1959 married, Ruth Alpern, whose father had a small accounting practice in Manhattan.

Before graduating from Hofstra University on Long Island in 1960, he had already registered his own brokerage firm with the SEC, Bernard L Madoff Investment Securities, which he founded partly with money saved from summer lifeguard duty and a lawn-sprinkler installation business he had run in school.

After an uninspired year in law school, he devoted himself full-time to the business of trading over-the-counter stocks — an enormous market in an era when only the most seasoned US companies could win listings on the New York Stock Exchange and the smaller American Stock Exchange.

His business prospered in the boom years of the 1960s and weathered the downturns of the 1970s by catering to the expanding world of institutional investors, who were rapidly replacing retail investors on Wall Street.

After his brother, Peter, joined the Madoff firm in 1970, it began to build a reputation for harnessing cutting-edge computer technology to the traditional business of trading securities. It was one of the early participants in the electronic market that ultimately became the modern Nasdaq, and was involved as an investor in several other platforms for computerised trading.

By the early 1960s, he had started accepting money raised for him by his father-in-law, Saul Alpern, and two young accountants who worked in the Alpern firm. At some point, the two accountants began to sustain this flow of Madoff-bound cash through the issuance of notes that they failed to register with the SEC, as required by law. The commission shut down that business in 1992, after Madoff had received almost $US500 million from the accountants' clients, who believed he was investing it for them.

By then, hedge funds, pension plans and university endowments were entrusting hundreds of millions of dollars to Madoff — despite a business operation that was cloaked in secrecy, account statements that were suspiciously antiquated and independent audits that were signed by a one-man firm in a suburban store front office.

Never an effusive man, Madoff became even more impassive as he and his family were caught up in the media storm that followed his arrest. One tabloid labelled him the most hated man in New York City.

Before being sentenced on June 29, 2009, in a Manhattan courtroom, he read from a statement he had prepared with his lawyer, Ira Lee Sorkin.

"I am responsible for a great deal of suffering and pain, I understand that," he told the court. "I live in a tormented state now, knowing of all the pain and suffering that I have created. I have left a legacy of shame, as some of my victims have pointed out, to my family and my grandchildren."

Madoff is survived by his wife, Ruth; his brother, Peter; his sister, Sondra M Wiener; and several grandchildren.

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