



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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FORMER FUND MANAGER PLEADS GUILTY TO DEFRAUDING INVESTORS AND TARP BANKS; LOSSES MAY EXCEED \$20 MILLION

WASHINGTON, DC - The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and United States Attorney for the Central District of California André Birotte Jr. today announced that a former investment fund manager pleaded guilty earlier today to federal fraud charges, admitting among other things that he bilked investors out of millions of dollars by falsely promising to purchase corporate bonds backed by the Troubled Asset Relief Program (TARP).

John Farahi, 54, of Bel Air Estates, pleaded guilty to four felony counts – mail fraud, loan fraud, selling unregistered securities, and conspiracy to obstruct justice while collaborating with his corporate counsel to cover-up the fraud. Farahi formerly ran the Beverly Hills-based New Point Financial Services, Inc.

In a plea agreement filed in United States District Court, Farahi acknowledged that the scheme caused losses of more than \$7 million, while prosecutors reserved the right to argue that losses to victims are in excess of \$20 million.

“Facing significant investment losses in late-2008, Farahi exploited TARP as a way to double-down on his long-running Ponzi scheme,” said Special Inspector General Christy Romero of SIGTARP. “In order to attract fresh capital and to pay-off existing investors, Farahi touted the safety of his purported low-risk investments in various companies backed by TARP. When investor cash ran short, Farahi also defrauded three different banks, two of which were TARP recipients, in order to keep his scheme going.”

“Mr. Farahi used a variety of schemes, including the use of false promises about corporate bonds backed by TARP, to victimize both private investors and federally insured banks,” said United States Attorney André Birotte Jr. “The United States Attorney’s Office will continue to work with all its law enforcement partners, including the FBI, the SEC, and SIGTARP, to aggressively pursue investment fraud schemes and to protect investors at both the public and private level.”

In the plea agreement, Farahi specifically admitted that he engaged in a scheme that started as early as November 2005 to defraud numerous victims by using their funds for a range of unauthorized purposes, including paying off prior investors and subsidizing options futures trading. Farahi also admitted that he extended his fraud scheme in 2008 by drawing down on personal lines of credit based upon false statements to federally insured banks, including Bank of America, Sunwest Bank, and U.S. Bank. Farahi also acknowledged that he violated federal securities laws by selling unregistered securities and failing to comply with the SEC’s rules and regulations for selling unregistered securities. Farahi further admitted that he conspired with his attorney to obstruct an SEC investigation by, among other things,

altering documents that were turned over to the SEC and providing false and misleading testimony under oath to the SEC on three separate occasions.

The statutory maximum penalty for the four charges to which Farahi pleaded guilty is 75 years in federal prison. Under the terms of the plea agreement, the government agreed to recommend a sentence of no more than 10 years in prison. The final decision on a sentence will be made by United States District Judge Phillip S. Gutierrez on January 14, 2013.

A federal grand jury in December indicted Farahi and attorney David Tamman, 44, of Santa Monica. Tamman was charged with conspiring with Farahi to obstruct the SEC investigation into Farahi's fraud scheme. At the time of the alleged obstruction, Tamman, who is now a sole practitioner with offices in Century City, served as corporate counsel for Farahi's investment company and was a law firm partner. Tamman, who is presumed to be innocent until proven guilty in court, is scheduled to go on trial before Judge Gutierrez on October 23.

The case against Farahi and Tamman is the result of an investigation by SIGTARP and the Federal Bureau of Investigation. The SEC also provided substantial assistance during the investigation.

The SEC filed a federal civil complaint alleging violations of the federal securities laws against Farahi and others in January 2010. The lawsuit alleged that Farahi and others conducted an unregistered offering fraud aimed at Iranian-Americans in the Los Angeles area (see: <http://www.sec.gov/news/press/2010/2010-3.htm>). The SEC subsequently obtained a permanent injunction, as well as orders freezing Farahi's and New Point's assets and appointing a receiver over New Point Financial Services. In January 2011, the SEC initiated public administrative proceedings against Tamman, citing improper professional conduct during an SEC examination (see: <http://www.sec.gov/news/press/2011/2011-29.htm>).

This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. SIGTARP is a member of the task force. To learn more about the President's Financial Fraud Enforcement Task Force, please visit www.stopfraud.gov.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP.

To report suspected illicit activity involving TARP, dial the **SIGTARP Hotline**: 1-877-SIG-2009 (1-877-744-2009).

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