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FORMER TARP BANK PRESIDENT/CEO AND CHIEF LENDING OFFICER, TWO OTHERS INDICTED IN MASSIVE BANK FRAUD SCHEME

WASHINGTON, DC - Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and Melinda Haag, United States Attorney for the Northern District of California, today announced that Sean Cutting, Brian Melland, Bijan Madjlessi, and David Lonich have been indicted and were arrested on Wednesday on federal charges of conspiracy, bank fraud, wire fraud, money laundering, false statements to a bank, false bank entries, and attempted obstruction of justice.

Sean Cutting, age 44, of Sonoma, Calif., is the former president and chief executive officer of TARP recipient Sonoma Valley Bank, of Sonoma, Calif. Brian Melland, age 45, of Santa Rosa, Calif., is a former senior vice president and chief lending officer of Sonoma Valley Bank. Bijan Madjlessi, age 58, of Mill Valley, Calif., is a real estate developer, and David Lonich, age 59, of Santa Rosa, Calif., is an attorney for Madjlessi.

According to the Indictment returned by a federal grand jury on March 19, 2014, and unsealed on Wednesday, Madjlessi is alleged to have defaulted on a loan of more than \$30,000,000, which he had personally guaranteed, relating to a real estate project known as the Park Lane Villas East in Santa Rosa, Calif. Working with Lonich, Cutting, and Melland, as well as a nominee borrower, Madjlessi allegedly obtained a loan from Sonoma Valley Bank to purchase his own defaulted loan on the premise that the nominee was the actual borrower when, in fact, Madjlessi and Lonich were the true borrowers. According to the Indictment, Cutting and Melland failed to disclose their knowledge of the true identities of the borrowers to Sonoma Valley Bank and took steps to authorize the loan. Madjlessi's nominee successfully obtained the loan from Sonoma Valley Bank and purchased the defaulted loan from a Federal Deposit Insurance Corporation contractor. Madjlessi, Lonich, and the nominee later settled litigation regarding the foreclosed loan, and Madjlessi and Lonich obtained title to the Park Lane Villas East.

The Indictment also alleges that Cutting helped Madjlessi and Lonich gain control of additional units at the Park Lane Villas East by issuing letters on Sonoma Valley Bank letterhead falsely stating that potential nominee buyers had sufficient funds at Sonoma Valley Bank for purchase. Madjlessi and Lonich are also alleged to have instructed the nominee to make false claims to federal agents and to a federal grand jury investigating the transactions.

Ultimately, Madjlessi and Lonich obtained refinancing on the Park Lane Villas East through Freddie Mac, but not before Sonoma Valley Bank failed in August 2010. Until it failed, Sonoma Valley Bank was insured by the Federal Deposit Insurance Corporation (FDIC), was a member of the Federal Home Loan

Bank of San Francisco, and had received and still held more than \$8.65 million in funds from the U.S. Department of the Treasury Troubled Asset Relief Program (TARP).

“On Wednesday morning, SIGTARP and its law enforcement partners arrested both the former president and CEO and the former chief lending officer of TARP recipient Sonoma Valley Bank and two co-conspirators for their roles in an alleged \$9.5 million fraud scheme they began orchestrating weeks after the bank received nearly \$9 million in taxpayer TARP funds, all of which was lost when the bank failed,” said Christy Romero, Special Inspector General for TARP (SIGTARP). “The two TARP bank executives, Cutting and Melland, are alleged to have skirted the bank’s internal controls and defrauded Sonoma Valley Bank by authorizing the bank to lend \$9.5 million to a straw purchaser so that the funds could be used by real estate developer Madjlessi to repurchase part of the same condominium project for which Madjlessi had already defaulted on a construction loan. In order to help Madjlessi regain control of residential units in the project that had already been sold and to obtain financing from Freddie Mac, TARP bank CEO Cutting is alleged to have produced letters, on Sonoma Valley Bank letterhead, falsely stating that straw buyers had sufficient funds at the bank to purchase the units. SIGTARP and our law enforcement partners stand together to investigate fraud by TARP bank executives and their co-conspirators and to ensure that perpetrators of fraud against TARP are held accountable for their actions and are brought to justice.”

In February 2009, Sonoma Valley Bancorp, of Sonoma, Calif., the parent of Sonoma Valley Bank, received approximately \$8.65 million in federal taxpayer TARP funds. When Sonoma Valley Bank failed and was closed by state and federal regulators in August 2010, the entire TARP investment was lost, in addition to more than \$350,000 the bank owed to taxpayers as a result of holding TARP funds.

All four defendants were arrested on Wednesday in Marin and Sonoma counties in California and made initial appearances in federal court in San Francisco. Each defendant was released on a \$250,000 bond. The defendants’ next scheduled hearing will be before the Honorable Susan Illston, United States District Court Judge, on April 18, 2014, at 2:00 p.m. Eastern

An Indictment merely alleges that crimes have been committed, and all defendants are presumed innocent until proven guilty beyond a reasonable doubt. The defendants face the following charges and maximum sentences:

DEFENDANT	CHARGES
Madjlessi, Lonich, Cutting, and Melland	One count of conspiracy to commit wire and bank fraud, in violation of 18 U.S.C. § 1349, with up to 30 years of imprisonment, five years of supervised release, and a fine of \$1,000,000.
Madjlessi, Lonich, Cutting, and Melland	One count of bank fraud, in violation of 18 U.S.C. § 1344, with up to 30 years of imprisonment, five years of supervised release, and a fine of \$1,000,000.
Madjlessi, Lonich, Cutting, and Melland	Six counts of wire fraud affecting a financial institution, in violation of 18 U.S.C. § 1343, each with up to 30 years of imprisonment, five years of supervised release, and a fine of \$1,000,000.

Madjlessi, Lonich, Cutting, and Melland	One count of conspiracy to make false statements to a bank, in violation of 18 U.S.C. § 371, with up to five years of imprisonment, three years of supervised release, and a fine of \$250,000.
Madjlessi, Lonich, Cutting, and Melland	One count of conspiracy to launder money, in violation of 18 U.S.C. § 1956(h), with up to 10 years of imprisonment, three years of supervised release, and a fine of \$250,000 or twice the derived property.
Madjlessi, Lonich, Cutting, and Melland	Twelve counts of money laundering, in violation of 18 U.S.C. § 1957, each with up to 10 years of imprisonment, three years of supervised release, and a fine of \$250,000 or twice the derived property.
Cutting and Melland	One count of conspiracy to misapply bank funds, in violation of 18 U.S.C. § 371, with up to five years of imprisonment, three years of supervised release, and a fine of \$250,000.
Madjlessi, Lonich, and Cutting	Five counts of false bank entries, in violation of 18 U.S.C. § 1005, each with up to 30 years of imprisonment, five years of supervised release, and a fine of \$1,000,000.
Madjlessi and Lonich	One count of attempted obstruction of justice, in violation of 18 U.S.C. § 1512(c), with up to 20 years of imprisonment, three years of supervised release, and a fine of \$250,000.

In addition, the defendants face a \$100 mandatory special assessment for each charge against them as well as potential forfeiture and restitution if convicted. However, any sentence following conviction would be imposed by the Court after consideration of the U.S. Sentencing Guidelines and the federal statute governing the imposition of a sentence, 18 U.S.C. § 3553.

Assistant U.S. Attorney Robert David Rees is prosecuting the case with the assistance of Rawaty Yim.

This case is being investigated by SIGTARP, the Federal Housing Finance Agency Office of Inspector General, and the Federal Deposit Insurance Corporation Office of Inspector General with the assistance of the Marin County Sheriff's Office, the Sonoma County Sheriff's Office, and the Santa Rosa Police Department.

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

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