



SIGTARP

Office of the Special Inspector General
for the Troubled Asset Relief Program

Cooperating Defendant Sentenced to Time Served for Role in Massive Fraud Scheme that Contributed to Failure of Sonoma Valley Bank, Resulting in a Complete Loss of \$8.6 Million TARP Bailout

In July 2019, a California federal court sentenced cooperating defendant James House to time served and three years of supervised release for his role in a massive fraud scheme that contributed to the failure of Sonoma Valley Bank and a complete loss to TARP of \$8.6 million. As part of the sentencing, the court ordered House to pay \$19,196,000 in restitution.

In August 2018, the court sentenced Sonoma Valley Bank CEO Sean Cutting and Chief Loan Officer Brian Melland to eight years and four months in prison, and attorney David Lonich to six years and eight months in prison, for a years-long, highly complex fraud scheme. On December 18, 2017, a federal jury convicted all three after trial. The bank officers conspired to make millions in illegal bank loans to “straw” borrowers, knowing that the loan proceeds would go to one bank borrower, real estate developer Bijan Madjlessi. In 2005, Madjlessi faced cash flow issues and the bank lent him money in excess of their legal loan limits through a series of straw borrowers. Bank CEO Cutting and Loan Officer Melland then tried to cover up the scheme by falsifying the bank’s books and lying to bank regulators. During the fraud, the bank applied for TARP, with the CEO describing TARP as a “cookie jar” saying it only made sense for the bank to “take some.”

James House became involved because by 2009, Madjlessi had nearly \$30 million in debt at Sonoma Valley Bank when one of his properties was foreclosed. To get the property back, Madjlessi conspired with House, who he owed hundreds of thousands of dollars for carpentry work. House agreed to act as a straw borrower, getting the loan from the bank in his name, and passing on almost all the proceeds to Madjlessi. In return, House was paid almost exactly what he was owed by Madjlessi.

James House was the government’s cooperating witness. When SIGTARP investigators approached House in 2011, his immediate reaction was to admit what he had done and offer to cooperate, which he did for more than eight years. He even shot undercover video of Madjlessi and Lonich during which they described their plan and urged House to lie. House testified at trial for four days and received credit for his cooperation. House's crime was serious in that it directly contributed to the failure of the bank. After indictment, but prior to standing trial, Madjlessi died in a one car accident when his vehicle plunged over a cliff on Highway 1.

SIGTARP was joined in the investigation by 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. The U.S. Attorney's Office for the Northern District of California prosecuted the case.