



SIGTARP

Office of the Special Inspector General
For The Troubled Asset Relief Program

FOR IMMEDIATE RELEASE

Thursday, April 29 2021

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NEW JERSEY MAN SENTENCED TO MORE THAN FIVE YEARS IN FEDERAL PRISON FOR \$3.5 MILLION BANK FRAUD SCHEME

Fraudulently Obtained Loans to Purchase Hotels and Multifamily Residential Property Resulting in Losses of More Than \$3.5 Million to Small Local Bank

Baltimore, Maryland – U.S. District Judge Deborah K. Chasanow today sentenced Mehul Khatiwala, age 37, of Voorhees, New Jersey, to five years and three months in federal prison, followed by four years of supervised release, for conspiracy to commit bank fraud and for three counts of bank fraud, in connection with schemes to fraudulently obtain a total of approximately \$15 million in loans from Cecil Bank to purchase hotels and a multifamily residential property, resulting in losses of more than \$3.5 million. Judge Chasanow also ordered Khatiwala to pay a \$50,000 fine and to forfeit and pay restitution of \$3,593,801.

“Treasury and taxpayers lost more than \$10 million in TARP when Cecil Bank filed bankruptcy, and today there is justice for this defendant hotel owner who defrauded the bank, causing millions in losses while the bank was in TARP,” said Special Inspector General Christy Goldsmith Romero. “We commend the United States Attorney’s Office for the District of Maryland and other law enforcement partners to hold accountable those who defrauded this TARP bank.”

“Mehul Khatiwala will now serve more than five years in federal prison for fraudulently obtaining more than \$15 million in loans. Khatiwala’s criminal behavior stole millions of dollars from the victims, which included not only the bank that made the loans, but the American taxpayers whose tax dollars guaranteed the loans,” said Acting U.S. Attorney Jonathan F. Lenzner. “All of us in federal law enforcement are committed to investigating and prosecuting this type of costly fraud.”

According to his plea agreement, from February 2011 through January 2014, Khatiwala and two co-conspirators executed a scheme to defraud Cecil Bank, the Small Business Administration (SBA), and other financial institutions by misrepresenting material facts in order to obtain financing for the purchase of two hotels and a multifamily residential property. Khatiwala defaulted on the loans, causing losses to Cecil Bank and the SBA of more than \$3.5 million. According to the indictment and information presented at today's plea hearing, on December 23, 2008, Cecil Bank's holding company, Cecil Bankcorp, Inc., received an \$11.5 million bailout from the Troubled Asset Relief Program (TARP).

Specifically, beginning in approximately April 2011, Khatiwala and Conspirator A made plans to apply for a \$5 million loan at Cecil Bank to purchase the Memphis Airport Hotel in Memphis, Tennessee, as well as a \$1.6 million loan to renovate that hotel. In order to obtain a loan, Khatiwala concealed Conspirator A's 80% ownership of the borrowing entity because Conspirator A had already reached his legal lending limit at Cecil Bank. In May 2011, Cecil Bank's Board of Directors approved the \$5 million loan, with the condition that it be guaranteed by the SBA. The SBA required Khatiwala, as the purported 100% owner of the borrowing entity, to show that he had equity in the borrowing entity, or cash on hand of approximately \$1.8 million. Conspirator B, who was an employee at another bank, falsely verified that Khatiwala had over \$2 million on deposit at the co-conspirator's bank. Khatiwala admitted that he signed and submitted this statement, which he knew to be false. The SBA approved its 75% guarantee of the \$5 million loan funded by Cecil Bank. The loan went into default in January 2015.

In 2007, Khatiwala and the other owners of the Best Western Hotel in York, Pennsylvania, refinanced a loan for the property in the amount of \$6.635 million. In early 2010, Khatiwala and his co-owners became delinquent on the loan and began discussions with the loan servicing company. In August 2011, Khatiwala reached an agreement with the loan servicer to accept a discounted payoff of \$3.625 million on the unpaid principal balance of approximately \$6.6 million. Khatiwala submitted fraudulent documentation and a fraudulent settlement statement to the loan servicer showing that the funds were being provided by a private lender. In fact, Khatiwala had arranged for the sale of the hotel to related parties for the sum of \$4.3 million.

As early as April 2011, prior to the time Khatiwala made the misrepresentations to the loan servicer to negotiate the payoff, he began implementing the second step of his short-sale fraud scheme by arranging the sale of the hotel to Person B and one of Khatiwala's employees. Khatiwala fraudulently obtained a \$3.225 million loan from Cecil Bank, which was guaranteed by the SBA. During the loan application review and underwriting process performed by Cecil Bank and the SBA, Khatiwala submitted false documents as to the ownership of the selling and purchasing entities, as well as false financial

statements for the purchasers. Khatiwala knew that the funds paid at closing would come from Khatiwala's own personal bank account and other businesses, not from the purchasers, as was falsely represented to the bank and the SBA, in order to obtain approval of the loan. As a result of this short-sale fraud, the original holder of the note on the Best Western Hotel lost \$675,000, which instead went to Khatiwala.

Finally, Khatiwala admitted that beginning in February 2011, he negotiated the purchase of a multifamily residential property in Perryville, Maryland. In order to obtain the loan, he established a company to serve as the borrowing and purchasing entity, representing to Cecil Bank that Persons A and B, a husband and wife, were the 100% owners of the company, and Khatiwala was the manager. In fact, Conspirator A owned 50% of the company and agreed to serve as guarantor on the loan. The bank approved a \$7,122,500 loan for the purchase of the property with Persons A and B as the 100% owners of the purchasing entity. On about March 28, 2011, several days before settlement, Khatiwala e-mailed to Conspirator A an Amended and Restated Operating Agreement reflecting Conspirator A's 50% interest in the property and his agreement to indemnify Persons A and B for any loss, cost, liability or expense arising in connection with any enforcement of Cecil Bank's rights under the loan guarantee agreement. Khatiwala, Conspirator A, and Persons A and B signed the Amended Agreement; however, that material fact and document were never disclosed to Cecil Bank before or after the settlement, thus concealing Conspirator A's ownership interest in the property. As early as February 2012, the loan payments of approximately \$29,000 per month became delinquent and the loan went into default. Cecil Bank ultimately sold the note to a private lender for \$3.252 million in lieu of foreclosure, incurring a loss of \$3,583.170.

Maryland's Assistant U.S. Attorneys Martin J. Clarke and Harry M. Gruber are prosecuting the case.

About SIGTARP

SIGTARP was created as an independent law enforcement agency to investigate fraud, waste, and abuse related to the Emergency Economic Stabilization Act (EESA). To date, SIGTARP investigations have resulted in the recovery of over \$11.2 billion, 389 criminal convictions and 306 defendants sentenced to prison.

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