



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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Media Inquiries:

202-927-8940

VIRGINIA BUSINESSMAN SENTENCED TO 14 YEARS IN FEDERAL PRISON FOR \$41 MILLION BANK FRAUD SCHEME AND TAX SCAM

Fraud Scheme Contributed to the Failure of Bank of the Commonwealth

WASHINGTON, DC - George P. Hranowskyj, 47, of Chesapeake, Va., was sentenced yesterday to 14 years in prison for carrying out elaborate and sophisticated fraud schemes that contributed to the failure of the Bank of the Commonwealth and defrauded investors and the government of millions of dollars.

Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Neil H. MacBride, United States Attorney for the Eastern District of Virginia; Juan C. Molina, Acting Special Agent in Charge of the FBI's Norfolk Field Office; Rick A. Raven, Special Agent in Charge of the Internal Revenue Service Criminal Investigation's Washington, D.C., Field Office; and Jon T. Rymer, Inspector General of the Federal Deposit Insurance Corporation (FDIC-OIG), made the announcement yesterday after sentencing by United States District Judge Raymond A Jackson.

"Hranowskyj treated this bank like he owned it, calling himself 'Big Daddy' to bank employees, overdrawing his accounts by \$600,000, and demanding that the bank 'lower his rates ASAP' and cash his employees' paychecks even though his account was in the red," said Christy Romero, Special Inspector General for TARP (SIGTARP). "If the bank did not do what he wanted, he threatened to stop participating in a vast fraud where he helped senior bank executives extend-out bad loans, pretending that they were current on the bank's books, and bid up bank-owned property at auction using the bank's own money. Hranowskyj and his partner, Eric Menden, leveraged such control over the bank due to this scheme, that bank employees called it the 'Bank of Eric and George.' The \$41 million fraud scheme perpetrated by these partners in crime contributed to the failure of the bank, a failure that left the entire Tidewater area without an important source of lending. SIGTARP and our law enforcement partners will bring to justice all those responsible for all fraud that drove Bank of the Commonwealth into the ground."

"Mr. Hranowskyj's agreement to perform personal and professional favors for bank insiders in exchange for unfettered access to millions of dollars in credit exposes the ugly underbelly of how certain insiders treated the Bank of the Commonwealth as their personal piggy bank," said U.S. Attorney MacBride. "His sentence of 14 years in prison sends a strong and unequivocal message that white collar criminals will be held accountable for the often devastating impact of their crimes on our communities."

Hranowskyj pled guilty on July 12, 2012, to conspiracy to commit wire fraud and conspiracy to commit bank fraud.

According to court records, from January 2008 through August 2011, Hranowskyj and his business partner, Eric H. Menden, 53, of Chesapeake, Va., performed favors for insiders at the Bank of Commonwealth in exchange for preferential lending treatment and assisted insiders in concealing the extent of the bank's non-performing assets by purchasing bank-owned property.

At the time the bank failed on September 23, 2011, Hranowskyj and his business partner were the bank's largest lending relationship - together, the partners guaranteed approximately \$41 million in loans. Almost all of these loans were on an interest-only basis, and the two men were regularly permitted to overdraw their accounts. According to court records, Hranowskyj obtained loans simply by sending an e-mail to a bank insider asking for money to purchase a Hummer or beach-front property. The close relationship between Hranowskyj, Menden, and bank insiders caused employees at the bank to sometimes refer to the Bank of the Commonwealth as "the Bank of Eric and George."

Court records indicate that in November 2008, the bank sent to the Federal Reserve an application requesting approximately \$28 million from the Troubled Asset Relief Program (TARP). Based on concerns about the health of the bank, the Federal Reserve, the bank's regulator, later requested that the bank withdraw its TARP application, which the bank did.

In July 2010, the bank entered into an agreement with the Federal Reserve and other regulators that specifically prohibited the bank from extending, renewing, or restructuring any loans to specific troubled borrowers, which included Hranowskyj and his business partner.

In addition to the fraudulent conduct involving the Bank of the Commonwealth, Hranowskyj was sentenced for a separate scheme aimed at illegally profiting from historic rehabilitation tax credits. In this scheme, Hranowskyj and Menden systematically falsified invoices for large construction projects and used them to apply for federal and state historic tax credits. They had no personal use for the tax credits, but they instead sold them to investors in need of reducing their own tax liability.

In total, corporate investors paid Hranowskyj and his business partner approximately \$8.7 million for illegitimate tax credits. As a result, the United States of America suffered a loss of approximately \$6.2 million and the Commonwealth of Virginia suffered a loss of approximately \$6.3 million.

Menden pled guilty for his role in these fraud schemes on April 12, 2012, and was sentenced on Sept. 26, 2012, to 11 ½ years in prison.

This ongoing investigation is being conducted by SIGTARP, the FBI's Norfolk Field Office, IRS-CI, and the FDIC-OIG, with cooperation from the Virginia Department of Historic Resources and U.S. Department of the Interior National Park Service. Assistant United States Attorneys Melissa E. O'Boyle, Katherine Lee Martin, and Uzo Asonye are prosecuting the case on behalf of the United States.

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.

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