



# 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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## VIRGINIA DEVELOPER SENTENCED TO 11½ YEARS IN FEDERAL PRISON FOR \$41 MILLION BANK FRAUD SCHEME AND TAX SCAM

WASHINGTON, DC - Eric H. Menden, 53, of Chesapeake, Va., was sentenced today to 138 months in prison, followed by three years of supervised release, for engaging in a \$41 million bank fraud scheme that contributed to the failure of the Bank of the Commonwealth and a separate historic-tax-credit fraud scheme that cost state and federal governments more than \$12 million and investors more than \$8 million.

Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Neil H. MacBride, United States Attorney for the Eastern District of Virginia; John Boles, 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 after sentencing by United States District Judge Raymond A. Jackson.

"Today's sentence brings justice and holds Eric Menden accountable for defrauding TARP applicant Bank of the Commonwealth for three years in an elaborate tit-for-tat scheme with bank insiders that contributed to the failure of the bank," said Christy Romero, Special Inspector General at SIGTARP. "Menden received \$35 million in bank loans with such preferential treatment that bank employees referred to the bank as 'the Bank of Eric and George.' In return, he conspired with bank insiders to extend-out nonperforming loans, masking their past-due status through tricks such as fraudulent construction draws and his purchase of bank-owned property at inflated prices. I want to thank Neil MacBride and the assistant United States Attorneys on the case who have shown great leadership in holding Menden accountable for his crimes."

"Eric Menden's crimes have had a devastating impact on the Hampton Roads community," said U.S. Attorney MacBride. "A high-school drop-out who worked to own a construction company, Mr. Menden was making a good living doing what he loved. Yet he threw it all away by stealing millions from taxpayers, investors, and the Bank of the Commonwealth. Today's sentence is just punishment for his fraud, along with the steps he's taken to accept responsibility for his actions."

On April 20, 2012, Menden pled guilty to conspiracy to commit wire fraud, making false statements, and conspiracy to commit bank fraud. According to the statement of facts filed with his plea agreement, from January 2008 through August 2011, Menden admitted that he and his business partner performed favors for insiders at the Bank of the 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, Menden and his business partner owed the bank approximately \$41 million and the total approximate loss related solely to the loans outlined in court records is at least \$13,263,443.

### **Favors and Bank-Owned Property**

In court papers, Menden admitted that, starting in January 2008, he and his business partner conspired with bank insiders to purchase underperforming bank-owned properties. Bank insiders would typically advance loan proceeds to the two men to facilitate the purchases, loans that the bank would later write off at significant losses.

On multiple occasions, at the request of a bank insider, Menden and his business partner would bid on bank-owned properties being sold at a foreclosure auction up to a specific price so that the bank could pay off the underlying loan for the properties. Again, the bank insiders conspired to fund loans to the two men to facilitate these fraudulent transactions. In one instance, the bank funded more than \$900,000 to purchase property at auction in 2008. In April 2011, the bank obtained an appraisal that indicated that the building had no useful life, and the bank charged off more than \$500,000 of this loan as a loss.

In addition, Menden admitted that he and his partner also purchased properties owned by a bank insider through loans facilitated by other bank insiders to complete the purchases. In these instances, the bank insider was either no longer liable for large loans or made a profit on the sale. As with the other loans to Menden and his partner, the bank was eventually required to charge off these loans at a considerable loss.

Menden also admitted that he paid more than \$6,000 to help upgrade a bank conspirator's kitchen.

### **TARP Application**

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 Menden and his business partner.

Despite this prohibition, bank insiders continued to sell and attempt to sell underperforming bank-owned property to Menden through a nominee borrower.

### **345 Granby Street (Norfolk, Va.) Project**

Menden admitted that he and his business partner submitted construction draw requests to the bank with inflated amounts owed subcontractors and included work that was not completed. However, a

bank conspirator approved and funded the requests without performing an inspection or requiring any support for the requested amounts. With the help of a bank conspirator, Menden and his business partner cashed multiple six-figure checks drawn on this construction account but used for their own personal purposes.

By July 2009, the original loan of \$16 million was fully funded, but the renovations were far from complete. Bank conspirators caused the bank to approve an additional \$2.45 million loan to Menden and his business partner, who used \$550,000 of the loan to pay down negative balances the partners had incurred in their checking accounts.

By April 2011, the bank charged off approximately \$12.5 million of this loan relationship as a loss, and the property - which a bank conspirator had fraudulently appraised at \$20 million in 2008 - was appraised anew in September 2011 as being worth \$2.8 million.

### **Historic Tax Credit Fraud**

According to court records, Menden admitted that, from January 2006 through March 2012, he and his business partner borrowed funds from financial institutions to purchase and renovate properties that could qualify for historic rehabilitation tax credits.

Menden admitted that they purchased and renovated properties located at 345 Granby Street and 742 West Princess Anne Road in Norfolk, as well as two additional properties located at 430 Boush Street and 3700 Hampton Boulevard in Norfolk. During these renovation projects, Menden and his partner applied 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 Menden 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's business partner, George P. Hranowskyj, 47, of Chesapeake, Va., pled guilty for his role in these fraud schemes on July 12, 2012. He faces a maximum of 20 years in prison for conspiracy to commit wire fraud and a maximum of five years in prison for conspiracy to commit bank fraud when he is sentenced on Oct. 15, 2012.

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](http://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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