

Department of Justice

U.S. Attorney's Office

District of Maryland

FOR IMMEDIATE RELEASE

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New Jersey Man Pleads Guilty to Federal Charges for \$3.5 Million Bank Fraud Scheme

Baltimore, Maryland – Mehul Khatiwala, age 37, of Voorhees, New Jersey, pleaded guilty today to conspiracy to commit bank fraud and to three counts of bank fraud, in connection with a scheme to fraudulently obtain loans from Cecil Bank to purchase hotels and a multifamily residential property, resulting in losses of more than \$3.5 million.

The guilty plea was announced by United States Attorney for the District of Maryland Robert K. Hur; Special Agent in Charge Robert Manchak of the Federal Housing Finance Agency (FHFA), Office of Inspector General; Special Agent in Charge Patricia Tarasca of the Federal Deposit Insurance Corporation (FDIC); Special Inspector General Christy Goldsmith Romero of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP); and Inspector General Hannibal “Mike” Ware of the Small Business Administration - Office of Inspector General.

“Mehul Khatiwala and his co-conspirators submitted false statements and fraudulent documentation in order to obtain more than \$15 million in loans from Cecil Bank, much of which was guaranteed by the SBA.” said U.S. Attorney Robert K. Hur. “The defendants used deceit to steal millions of dollars from the victims, which ended up including not only the bank but the American taxpayers. Federal law enforcement are committed to prosecuting and deterring 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. The defendant 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.

Khatiwala and others owned the Best Western Hotel in York, Pennsylvania. In 2007, they refinanced a loan for this 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 the defendant 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.

Khatiwala faces a maximum sentence of 30 years in prison on each of the four counts. U.S. District Judge Deborah K. Chasanow has scheduled sentencing for September 10, 2019, at 2:30 p.m.

United States Attorney Robert K. Hur commended the FHFA, the FDIC, SIGTARP, and the SBA-OIG, for their work in the investigation. Mr. Hur thanked Assistant U.S. Attorneys Martin J. Clarke and Harry M. Gruber, who are prosecuting the case.

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Topic(s):
Financial Fraud

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Component(s):
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