

Pennsylvania bank works to stem damage from CEO's fraud arrest

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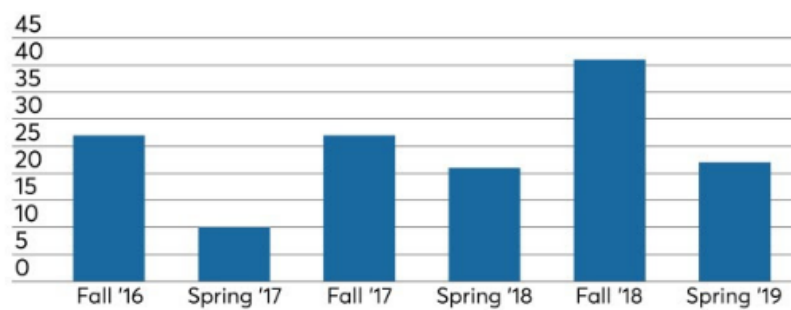
A Philadelphia-area bank is looking to return to business-as-usual after the arrest of its CEO on bribery, fraud and theft charges.

Noah Bank in Elkins Park, Pa., was rocked by news that Edward Shin was the subject of a four-count criminal complaint filed Wednesday in a Manhattan federal court. According to U.S. Attorney Geoffrey Berman, Shin used his insider position to issue Small Business Administration-backed loans to entities he secretly controlled.

The government has also accused Shin of taking kickbacks from a broker, who received fraudulent commissions from other SBA loans made by the bank.

In a way, the situation is bringing Noah's board and remaining management closer together, said Edwin Lloyd, the Elkins Park, Pa., bank's co-chairman.

Number of SBA-related indictments reported



Source: Office of Inspector General semiannual reports

The \$418 million-asset Noah is "operating about as smoothly" as possible, given the circumstances, Lloyd said Friday. "Something like this is very disruptive, but at the same time, we implemented [succession] plans we had in place," Lloyd said. "We have not had any major disruptions."

Making loans under SBA's flagship 7(a) program is a major component of Noah's strategy. The bank made 99 loans under the agency's 7(a) program, totaling \$96.4 million in fiscal 2018, which ended Sept. 30. During the first three months of fiscal 2019, Noah made 41 loans totaling \$31.5 million, according to the SBA.

Noah is one of the nation's roughly 150 minority depository institutions, a designation for banks with minority ownership or management. The bank primarily serves Asian-American communities in northern New Jersey, southeastern Pennsylvania and the New York area.

Lloyd, who was on a flight to San Francisco when news of Shin's arrest broke, said he has been in constant communication with other directors and bank executives.

“When I landed, I saw the various emails and calls alerting me to what happened,” Lloyd said. “We immediately got together as a team with the board and senior officers to come up with a plan to address [the situation].”

The criminal complaint details several instances where Shin allegedly profited from improper loans or received illegal kickbacks. In one case, in December 2010, the bank lent \$950,000 to a business Shin secretly co-owned. The SBA-guaranteed credit went into default in October 2014, resulting in a loss of \$611,000 for the agency.

While the alleged wrongdoing by Shin took place between 2009 and 2012, Peter Chartier, a Federal Deposit Insurance Agency special agent, noted that the complaint was “submitted for the limited purpose of establishing probable cause.”

The complaint “does not include all the facts I have learned during the course of my investigation,” Chartier added.

Noah issued its own press release Wednesday announcing the appointment of Chief Financial Officer Hyunjun An as acting president.

Shin “is restricted from having access to the [bank],” Lloyd said. “Everything was shut off.”

The criminal complaint did not charge the bank with any wrongdoing — a fact Lloyd was quick to note.

“The bank is not named in the complaint,” he said. “It’s solely Mr. Shin. No other individuals were named.”

While that’s true, Jacob Frenkel, a partner at Dickinson Wright in Detroit and a former federal prosecutor, noted that the bank still has a lot of heavy lifting ahead.

“The burden will be on the bank to establish for the SBA and its regulators that its compliance systems are effective, and the CEO used his position of authority to circumvent appropriate and well-designed systems,” Frenkel said. “The regulators will also look to see what compliance upgrades the bank undertakes in response.”

An SBA spokesperson declined to comment.

Though Noah will likely suffer a reputational hit as a result of the indictment, the damage isn’t likely to go much beyond that, barring the emergence of new information, Frenkel said.

“This administration certainly recognizes that punishing an institution for allegations of criminal conduct by an individual designed to benefit himself to the detriment of the institution are cases in which disciplining the bank itself does not serve a constructive public purpose,” Frenkel said.

Noah is initiating an internal investigation “to try and ascertain what has occurred,” Lloyd said.

In the meantime, “our intention is to continue to serve our community, ensure deposits are safe and sound [and] our employees are valued,” Lloyd said. “We will continue to work as a team.”