

Bank Official Saw Apparent Loan Fraud

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A scheme that defrauded eight prominent international financial institutions out of hundreds of millions of dollars for more than two years might have continued but for the efforts of an executive at the Long-Term Credit Bank of Japan, according to an affidavit submitted by an F.B.I. agent in charge of the case.

The affidavit provides the first extensive details of the unusual case, in which a former employee of the Philip Morris Companies is accused of posing as an officer of a fictional Philip Morris subsidiary to obtain more than \$300 million in loans from the Signet Banking Corporation, the Nationsbank Corporation, the Long-Term Credit Bank and others.

The case is certain to raise questions about how such prominent banks could be duped into lending to what was apparently a false enterprise.

"We are still trying to put together all the pieces of the puzzle," Teri Schrettenbrunner, a Signet spokeswoman, said. She declined to comment further.

The former Philip Morris employee, Edward J. Reiners, 51, of Somers, N.Y. was arrested on Tuesday, as was another person charged in the case, Judy R. Bachiman, 38, of Cliffside Park, N.J. The two appeared before a magistrate in White Plains yesterday. Mr. Reiners, of Somers, N.Y., was in custody. Ms. Bachiman, of Cliffside Park, N.J., was released on a \$40,000 bond. Mr. Reiners's lawyer could not be reached for comment yesterday.

A lawyer for Ms. Bachiman, Suzanne Brody, told The Associated Press that Ms. Bachiman was duped. "She's a lovely, quiet, unassuming single mother who goes to work every day and tries to make a living and support her son," Ms. Brody said.

Signet disclosed the suspected scheme late Tuesday, saying that it could lose as much as \$81 million as a result of the loans it made.

In a 15-page affidavit filed in Federal District Court in Richmond, Wilber E. Garrett Jr. the F.B.I. agent, said the scheme began to unravel on March 15, when a person identified only as Mr. Shoji, an officer at the Long-Term Credit Bank in New York, got in touch with Robert R. Wetteroff, an executive vice president at Nationsbank in Richmond. Mr. Shoji, whose first name was not disclosed, apparently questioned the

documentation connected with loans Mr. Reiners had secured through a bank syndicate led by Signet, a group that included the Long-Term Credit Bank.

According to the affidavit, the scheme began in 1993, when Mr. Reiners, posing as an official of Philip Morris, told Signet and Nationsbank officers that his employer needed the money for a secret international project to develop cigarette alternatives. Mr. Reiners persuaded the officials that the operation, which he said was code-named Project Star, was so secret that Philip Morris wanted the financing kept separate from its other banking relationships, and that all contacts with Philip Morris about the loans should be made through him, the F.B.I. said.

Signet Banking and Nationsbank agreed to the arrangement, and from late 1993 until early this year the two banks and other financial institutions extended a total of \$323.5 million in loans to Mr. Reiners's enterprise, the F.B.I. said. According to the affidavit, the loans were used to finance false leases for computer equipment.

Mr. Reiners, who until 1992 worked in the computer systems department at Philip Morris, had done business with one of the bank officials previously, the affidavit said. Mr. Reiners even used Philip Morris stationery when he applied for the loans, the affidavit said.

Until last week, the banks might have had little reason for concern, because Mr. Reiners reportedly had paid back about \$69.5 million of the loans.

But in advance of a scheduled \$5.5 million payment for March 18, the Long-Term Credit Bank asked whether a so-called incumbency certificate, saying that Mr. Reiners had the right to negotiate for Philip Morris through the end of 2003, was genuine. The document, dated Oct. 26, 1995, bore the names of Mr. Reiners and Diane M. McAdams, an assistant corporate secretary at Philip Morris.

Mr. Shoji, the Long-Term Credit Bank official, faxed a copy of the document on March 15 to Ms. McAdams, the affidavit said.

"This is a phony certificate," Ms. McAdams reportedly replied in a fax that day. "Mr. Edward J. Reiners is not an elected official of the Philip Morris Companies Inc. I do not know a Mr. Edward J. Reiners, and the signature that appears on the certificate is not mine."

The answer from Ms. McAdams led the Long-Term Credit Bank to alert Nationsbank, which in turn told Signet and law enforcement authorities.

When the banks informed Mr. Reiners of their concerns over the weekend, the affidavit said, Mr. Reiners replied that Ms. McAdams responded the way she did because the Japanese bank did not have a confidentiality agreement with Philip Morris to guard the secrecy of Project Star.

Faced with mounting suspicions from Signet and Nationsbank, Mr. Reiners, during a telephone conversation, invited officials of those banks and Richard Nelson, the chief executive of Nelco Ltd., a computer-equipment leasing company that had been providing equipment to Mr. Reiners, to meet him and Ms. Bachiman, who posed as Ms. McAdams, at Philip Morris's offices in Rye Brook, N.Y.

F.B.I. agents listened in on the call and afterward, Mr. Reiners and Ms. Bachiman were arrested.

If convicted, the two face sentences of up to 30 years in prison, fines of as much as \$1 million and up to 5 years of supervised probation.

While the location of the money that was loaned is unclear, Signet Banking said yesterday that based on information provided by Federal authorities it expected to make "substantial recoveries."

Nationsbank, whose exposure in the case is about \$60 million, said that it had adequate reserves to cover any actual losses.

The other institutions that are said to have loaned money to Mr. Reiners are: Signet Leasing, which is affiliated with Signet Banking; the Corestates Financial Corporation; the Bank of Montreal; Creditanstalt-Bankverein of Austria; and the Hitachi Credit America Corporation, a unit of the Hitachi Credit Corporation of Japan.