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CEO OF BANK OF THE COMMONWEALTH, SENIOR EXECUTIVES, AND BORROWERS INDICTED IN MASSIVE FRAUD THAT LED TO THE COLLAPSE OF THE BANK

Bank Collapse Largest in Virginia since 2008 Financial Crisis

NORFOLK, VA - Top executives and favored borrowers have been indicted by a federal grand jury in Norfolk, Va., accused of masking non-performing assets at the Bank of the Commonwealth for their own personal benefit and to the detriment of the bank. This long-running scheme allegedly contributed to the failure of the bank in 2011, which the Federal Deposit Insurance Corporation (FDIC) estimates will cost the FDIC deposit-insurance fund $268 million.

Christy L. 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.

"CEO Edward Woodard, his son Troy, and executive vice presidents Simon Hounslow and Stephen Fields are charged today with lying and whitewashing in a fraud scheme that helped drive this community bank to fail," said SIGTARP Special Inspector General Romero. "They allegedly used scheme after scheme to conceal past-due loans and remove foreclosed property from the bank's books. Today's charges allege that friends of the bank received sweetheart deals in return for helping mask the bank's true financial position, and bank insiders personally benefitted. This type of fraud contributed to the economic crisis and left Tidewater citizens, who depended on this TARP applicant bank, to deal with the bank's collapse. Whether it happens on Wall Street or Granby Street, SIGTARP and its law enforcement partners will hold accountable those who commit crimes related to TARP."

"The Bank of the Commonwealth's high risk lending practices resulted in soaring losses after the 2008 financial crisis. Led by former CEO and Board Chairman Edward Woodard, these bank insiders and their favored borrowers allegedly conspired to hide the rapidly deteriorating financial condition of the bank through fraud," said U.S. Attorney MacBride. "For more than 30 years, this community put their trust - and their money - in the Bank of the Commonwealth. These charges portray a bank leadership that betrayed that trust for their own profit at the detriment to their own bank, its shareholders, and the community it served."

The 25-count indictment was returned on July 11, 2012, and made public today after the following individuals from Norfolk were taken into custody:

- **Edward J. Woodard**, 69, who served as the bank's chief executive officer and chairman of the board for more than three decades until he was forced to step down as chairman in April 2010 and forced to retired from the bank in December 2010. Edward Woodard is charged with conspiracy to commit bank fraud, bank fraud, false entry in a bank record, multiple counts of unlawful participation in a loan, multiple counts of false statement to a financial institution, and multiple counts of misapplication of bank funds.

- **Simon Hounslow**, 47, who served as an executive vice president and chief lending officer until the bank closed in September 2011. Hounslow is charged with conspiracy to commit bank fraud, misapplication of bank funds, false statement to a financial institution, and multiple counts of false entry in a bank record.

- **Stephen G. Fields**, 48, who served as an executive vice president and commercial loan officer until he was terminated in December 2010. Fields is charged with conspiracy to commit bank fraud, multiple counts of false entry in a bank record, multiple counts of false statement to a financial institution, and multiple counts of misapplication of bank funds.

- **Troy Brandon Woodard**, 35, the son of Edward Woodard, and who was employed by a wholly-owned subsidiary of the bank as a vice president and mortgage loan specialist until he was terminated in January 2011. Brandon Woodard is charged with conspiracy to commit bank fraud, bank fraud, and multiple counts of unlawful participation in a loan.

- **Thomas E. Arney**, 56, who leased office space on the third floor of the bank's headquarters and owned and operated a residential development company, several restaurants, rental properties, and a car restoration business. Arney is charged with conspiracy to commit bank fraud, bank fraud, unlawful participation in a loan, misapplication of bank funds, and multiple counts of false statement to a financial institution.

- **Dwight A. Etheridge**, 47, who owned and operated a residential and commercial development company, as well as an employment staffing company. Etheridge is charged with conspiracy to commit bank fraud, misapplication of bank funds, and multiple counts of false statement to a financial institution.

Each charge contained in the indictment carries a maximum penalty of 30 years in prison, if convicted. Criminal indictments are only charges and not evidence of guilt. A defendant is presumed to be innocent until and unless proven guilty.

According to the indictment, in 2006, leaders at the Bank of the Commonwealth began an aggressive expansion beyond its traditional focus on Norfolk and Virginia Beach to include branches in northeastern North Carolina and the Outer Banks. By December 2009, the bank's assets reached approximately $1.3 billion, built largely through brokered deposits, a financial tool that allows investors to pool their money and receive higher rates of return. Because of the high-volatility of these deposits, an institution must remain well-capitalized to accept and renew brokered deposits.

The indictment alleges that many of the bank's loans were funded and administered without regard to industry standards or the bank's own internal controls, and by 2008 the volume of the bank's troubled loans and foreclosed real estate soared. From 2008 through 2011, bank insiders - Edward Woodard, Hounslow, and Fields - allegedly masked the bank's true financial condition out of fear that the bank's declining health would negatively impact investor and customer confidence and affect the bank's ability to accept and renew brokered deposits.

To fraudulently hide the bank's troubled assets, bank insiders allegedly overdrew demand deposit accounts to make loan payments, used funds from related entities - at times without authorization from the borrower - to make loan payments, used change-in-terms agreements to make loans appear current, and extended new loans or additional principal on existing loans to cover payment shortfalls.

In addition, the indictment alleges that bank insiders also provided preferential financing to troubled borrowers - including Arney, Etheridge, and others - to purchase bank-owned properties. These troubled borrowers were already having difficulty making payments on their existing loans; however, the financing allowed the bank to convert a non-earning asset into an earning asset, and the troubled borrowers obtained cash at closing to make payments on their other loans at the bank or for their own personal purposes.

The indictment also alleges that troubled borrowers purchased or attempted to purchase property owned by bank insiders and Brandon Woodard. These real estate loans were fraudulently funded by the bank.

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

From 2008 up to its closing in 2011, the bank lost nearly $115 million. The indictment alleges that the bank's failure will cost the federal government through the deposit insurance fund in excess of $260 million. The forfeiture notice in the indictment attributes at least $71 million as illegal proceeds of the fraud.

Others charged as part of this ongoing investigation include the following:

- Business partners **Eric H. Menden**, 53, of Chesapeake, Va., and **George P. Hranowskyj**, 47, of Chesapeake, Va., pled guilty to engaging in a $41 million bank fraud scheme that contributed to the failure of the Bank of the Commonwealth. They also pled guilty to a separate fraud involving a six-year historic tax credit scheme that cost state and federal governments over $12 million and investors more than $8 million. Menden faces a maximum penalty of five years in prison for each count of conspiracy to commit wire fraud, making false statements, and conspiracy to commit bank fraud when he is sentenced on Sept. 26, 2012. Hranowskyj 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 October 15, 2012.

- **Natallia Green**, 29, of Norfolk, Va., and formerly employed by Menden and Hranowskyj, pled guilty to making a false statement on a loan application to the Bank of the Commonwealth. In January 2012, Green was sentenced to five years probation.

- **Maria Pukhova**, 30, of Virginia Beach, Va., and formerly employed by Menden and Hranowskyj, has been charged with making a false statement on a loan application to the Bank of the Commonwealth.

- **Jeremy C. Churchill**, 35, of Norfolk, Va., and a former vice president and commercial loan officer at the bank, pled guilty to conspiring with others to cause the bank to suffer millions of dollars in losses from loans meant to conceal financial problems at the bank and with one of its customers. Convicted of conspiracy to commit bank fraud, he faces a maximum penalty of five years in prison when he is sentenced on Aug. 24, 2012.

- **Recardo S. Lewis**, 61, of Norfolk, Va., and a former employee with Tivest Development & Construction, LLC, pled guilty to conspiring with others to defraud the Bank of the Commonwealth by submitting fraudulent draws on a multi-million construction project in Virginia Beach, Va. Convicted of conspiracy to commit bank fraud, Lewis faces a maximum penalty of five years in prison when he is sentenced on Sept. 19, 2012.

This investigation is being conducted by SIGTARP, the FBI's Norfolk Field Office, IRS-CI, and the FDIC-OIG. 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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