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News Release

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3 Community National Bank officers indicted for bank fraud, money laundering

Three top officers for the Community National Bank, located in North Branch, were indicted today in federal court on charges of bank fraud, mail fraud and money laundering in connection with the financing of the Ramsey Town Center development.

William Garfield Sandison, 65, Forest Lake, was charged with 11 counts of bank fraud, two counts of mail fraud, seven counts of misapplication of bank funds, one count of conspiracy to commit bank and mail fraud, one count of conspiracy to defraud the United States and six counts of money laundering. Sandison was the president of Community National Bank.

Ross William Sandison, 42, Grant, was charged with 11 counts of bank fraud, two counts of mail fraud, seven counts of misapplication of bank funds, one count of conspiracy to commit bank and mail fraud, one count of conspiracy to defraud the U.S. and six counts of money laundering. Ross Sandison was the bank's vice president.

Curtis Alan Martinson, 53, Eden Prairie, was charged with 11 counts of bank fraud, one count of mail fraud, seven counts of misapplication of bank funds, one count of conspiracy to commit bank and mail fraud, and six counts of money laundering. Martinson was the bank's senior vice president and later the executive vice president. Martinson reported to William Sandison and Ross Sandison, and served as branch manager and senior lending officer.

The indictment alleges that all three defendants knowingly executed a scheme to defraud financial institutions and to obtain money by means of false and fraudulent pretenses in connection with a \$35 million loan to Ramsey Town Center. Ramsey Town Center is a legal entity created to manage and finance the development of the Ramsey Town Center, a 320-acre, mixed-use development located in Ramsey.

In 2003, Community National Bank solicited other financial institutions to participate in financing the Ramsey Town Center development by lending \$35 million with the option of extending another \$15 million in credit as Ramsey Town Center paid down the \$35 million loan.

Community National Bank, as the lead bank, assumed responsibility for administering the \$35 million loan on behalf of the other participating banks. Community National Bank contributed \$1.5 million toward the \$35 million loan.

The \$35 million loan is called a participation loan, which is a loan made by multiple lenders to a single borrower. Community National, as the lead bank, acted as an agent for the other banks, originated the loan and dealt directly with the borrower. Twenty banks participated in the loan, which closed on Sept. 24, 2003. The loan was to be paid as the development's land was sold.

The indictment alleges that prior to soliciting the participating banks to join, the defendants, along with Community National Bank, had loaned the Ramsey Town Center developer approximately \$3 million, and did not disclose this to any of the participating banks. The defendants also failed to disclose that they jointly owned a business with the Ramsey Town Center developer called Powerhouse Title, which issued title insurance policies on behalf of title insurance companies.

The indictment alleges that to induce the participating banks, the defendants falsely represented that "disbursements will be allowed only for project improvements," while knowing that the defendants intended to and would disburse loan proceeds to pay off the pre-existing \$3.1 million loan. On Sept. 24, 2003, in execution of the scheme, the defendants caused Powerhouse Title to close the \$35 million loan, and then disburse loan proceeds to pay off the \$3 million in loans to Community National Bank and the defendants.

In October 2003, shortly after the \$35 million loan closed, Ramsey Town Center was financially unable to make required interest payments. The defendants made and caused to be made additional loans to Ramsey Town Center to keep the project alive and to forestall its financial collapse, while concealing from the participating banks that Ramsey Town Center lacked sufficient capital to complete the project or service the \$35 million loan debt.

On Oct. 3, 2003, nine days after the defendants allegedly caused Powerhouse Title to close the \$35 million loan, they loaned the developer and Ramsey Town Center \$990,000, which was used to make interest payments on the \$35 million loan. Although required to do so, the defendants concealed and did not disclose the \$990,000 loan to the participating banks.

On Oct. 9, 2003, Community National Bank loaned Ramsey Town Center \$2.78 million, which was also closed by Powerhouse Title. Again, although required to do so, the defendants concealed and did not disclose this loan to the participating banks.

From October 2003 to September 2004, the indictment alleges, the defendants repeatedly misrepresented to the participating banks that the Ramsey Town Center was performing well and the outlook for the project was favorable. However, during the spring and summer of 2004, Ramsey Town Center continued to be short of money and was often delinquent in paying contractors working on the project.

On Sept. 2, 2004, recognizing that Ramsey Town Center remained unable to meet its financial obligations, the defendants formed another company, Pentagon Credit, LLC, to loan Ramsey Town Center \$6 million so that it would continue to operate. In violation of the \$35 million loan agreements, the defendants caused the Pentagon loan agreement to provide that

Ramsey Town Center would make payments on the \$6 million loan using proceeds obtained exclusively from the \$35 million loan.

The indictment alleges that the defendants directed others to misapply funds to their benefit, and concealed the misapplications from the participating banks and Ramsey Town Center contractors.

On Aug. 10, 2004, the defendants prepared a letter to the participating banks which falsely represented the status of Ramsey Town Center, misrepresented the terms of the \$6 million loan, and did not disclose the existence of a third mortgage.

In November 2004, the defendants learned that a major homebuilder was reducing its participation in Ramsey Town Center, thus placing the project at risk of financial failure. They allegedly began diverting collateral securing the \$35 million loan to their own benefit, and from Dec. 24, 2004, to Oct. 14, 2005, the defendants caused Powerhouse Title to pay approximately \$6.6 million from the sale of Ramsey Town Center land to themselves and Pentagon Credit.

The indictment alleges that William Sandison and Ross Sandison conspired to defraud the U.S. government by impeding the Office of the Comptroller of the Currency (OCC) in examining Community National Bank's compliance with the applicable laws and regulations. The defendants allegedly provided false and misleading information to OCC examiners concerning Community National Bank's credits, expenses and operations.

The indictment also alleges that the defendants knowingly engaged in monetary transactions of \$10,000 or more of criminally derived property – the misapplication of bank funds, bank and mail fraud.

If convicted, each defendant faces a potential maximum penalty of 30 years in prison on each bank fraud count, 30 years on each mail fraud count, 30 years on each misapplication count, 30 years on each conspiracy count, 10 years on each money laundering count and five years on the conspiracy to defraud count. All sentences are determined by a federal district court judge.

This case is the result of an investigation by the IRS-Criminal Investigation Division and the U.S. Postal Inspection Service. It is being prosecuted by Assistant U.S. Attorney Ann M. Anaya.

An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by a defendant. A defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.