UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

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| In the Matter of<br><br>THOMAS A. NEELY, JR.<br><br>A former institution-affiliated party of Regions Bank,<br>Birmingham, Alabama<br><br>A State Member Bank | Docket No. 14-020-E-I<br>14-020-CMP-I<br><br>Notice of Assessment of a Civil Money Penalty and Notice of Intent to Prohibit Pursuant to Section 8 of the Federal Deposit Insurance Act, as Amended |

The Board of Governors of the Federal Reserve System (the "Board of Governors") is of the opinion or has reasonable cause to believe that:

(A) Thomas A. Neely, Jr. ("Neely"), a former Executive Vice-President and Business Services Credit Executive of Regions Bank, Birmingham, Alabama ("Regions Bank" or the "Bank"), engaged in unsafe and unsound practices, breaches of fiduciary duty, and violations of law. The practices, breaches and violations related to Neely's involvement in the Bank's reporting of commercial real estate or other loans held by the Bank for nonaccrual status during the first quarter of 2009 including, but not limited to, pulling certain large-balance commercial real estate and other loans from nonaccrual status in March 2009; and knowingly providing false and misleading information and concealing material information to federal and state bank examiners in connection with a targeted examination by the Supervisors in May 2009, which focused on the Bank's controls and procedures for identifying loans for nonaccrual status with regard to certain large-balance commercial real estate and other loans and the nonaccrual determinations made in connection with certain of those loans. In connection with the

misconduct described herein, Neely received a financial gain or other benefit and the Bank suffered financial loss or other damage; and

(B) The misconduct described herein involves personal dishonesty on the part of Neely, or demonstrates willful or continuing disregard for the safety and soundness of Regions Bank.

Accordingly, the Board of Governors hereby institutes this Combined Notice of Assessment of Civil Money Penalties and Notice of Intent to Prohibit (the "Notice") for the purpose of determining whether an appropriate order should be issued:

i. Permanently barring Neely from participating in any manner in the conduct of the affairs of any institution specified in 12 U.S.C. § 1818(e)(7)(a), pursuant to section 8 (e) of the Federal Deposit Insurance Act, as amended (the "FDI Act"), 12 U.S.C. § 1818(e); and

ii. Assessing a civil money penalty against Neely pursuant to section 8(i) of the FDI Act, 12 U.S.C. § 1818(i).

In support of this Notice, the Board of Governors alleges as follows:

**JURISDICTION**

1. Regions Bank is, and was at all material times relevant to this Notice of Charges, a state-chartered bank and member of the Federal Reserve System. Accordingly, the Board of Governors is the appropriate Federal Banking Agency to bring charges against institution-affiliated parties of the Bank within the meaning of section 3(q)(3) of the FDI Act, 12 U.S.C. § 1813(q)(3). The Bank is a subsidiary of Regions Financial Corporation, Birmingham, Alabama ("Regions Financial" or the "Company"), is a registered bank holding company subject to the supervision and regulation by the Board of Governors.

2. Neely was employed as an Executive Vice-President and as the Business Services Credit Executive of Regions Bank at all material times relevant to this Notice of Charges, and was an institution-affiliated party ("IAP") of the Bank, as defined in section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

3. The material period for purposes of this notice, unless otherwise stated, is January 1, 2009 through at least August 27, 2009.

## FACTUAL ALLEGATIONS

4. Neely was employed with Regions Bank, and its predecessor AmSouth Bank, continuously from approximately 1983 until December 31, 2010. Neely was formerly the Executive Vice-President for Regions Bank's Risk Management Credit Division and the Bank's Business Services Credit Executive during the period from at least the third quarter of 2008 through the second quarter of 2009 where he reported to the Bank's chief Credit Officer. During that period, Neely was a dotted-line report to Regions Bank's then-chief risk officer ("chief risk officer"). Neely's primary responsibilities involved all matters relating to commercial credit activities. Neely's direct reports included each of the credit officers who represented the Bank's different geographic regions. At all material times relevant to the Notice of Charges, according to Regions Bank's organization chart, Neely had no responsibilities over the Bank's Special Assets Department ("SAD"); however, Neely functionally controlled SAD. Neely was generally viewed by the SAD regional managers as the de facto head of SAD, even to the degree that the Bank's titular head of SAD, had a dotted line report to Neely.

**Nonaccrual processing**

5. Regions Bank tracked and recorded its nonperforming loans ("NPLs") as part of both internal performance metrics and its regular financial reporting. NPLs at the Bank consisted of, among other things, loans in a nonaccrual status. When a loan was placed in nonaccrual status, uncollected interest accrued during the current calendar year would be reversed and the Bank's interest income would be reduced.

6. The central purpose of classifying loans as nonaccrual is to prevent the inappropriate inflation of both a financial institution's income statement and its balance sheet. This classification is designed to distinguish between loans that are of sound credit quality and performing, and loans that are weak and unable to perform, or are judged to be unable to perform in the near term.

7. Regions Bank adhered to the regulatory definition of a nonaccrual loan, which provides that a loan should be classified as nonaccrual where either:

   a) payment in full of principal and interest is not expected;

   b) it is maintained on a cash basis because of deterioration in the financial condition of the borrower; or

   c) principal or interest has been in default for 90 days or more unless the asset is <u>both</u> well secured <u>and</u> in process of collection.

8. It was Regions Bank's policy and practice, consistent with the regulatory definition of a nonaccrual loan and safe and sound banking practice, that:

   a) a loan should be placed on nonaccrual, even if current, if full repayment of contractual principal and/or interest is in doubt;

   b) a loan should be classified as nonaccrual if repayment depends on: draw downs on remaining line-of-credit availability; obtaining additional loans (i.e., alternate

source of financing); selling off material business assets; or extending (i.e. amending, restructuring) liberal repayment terms or other material concessions to the existing borrower due to its deteriorating financial condition;

c) a loan classified as nonaccrual may nevertheless be restored to accrual status when full payment of principal and interest is reasonably assured or if a borrower has demonstrated sustained performance under new or revised terms after restructure of the loan;

d) "[i]f any portion of a credit relationship is placed on nonaccrual, then the entire credit relationship should be placed on nonaccrual; and

e) if a loan was to be restored to accrual status where full payment of principal and interest is reasonably assured or where the borrower has demonstrated sustained performance under new or revised terms after restructure of the loan, then an accrual status verification form would be completed.

9. It was Regions Bank's policy and practice that a loan internally risk-rated 70 and above was moved into SAD and handled within the portfolio by the appropriate SAD regional manager.

10. It was Regions Bank's policy and practice that a loan that was risk-rated 75 and above and recommended by the appropriate SAD regional manager was classified as nonaccrual.

11. It was Regions Bank's policy and practice that the decision to place a loan on nonaccrual status was made by the regional managers within SAD. Regional managers and the accompanying relationship managers on the loans were responsible for reviewing the loan file details, monitoring payments and communicating with borrowers. The SAD regional managers and the accompanying relationship managers

had the greatest degree of knowledge of a relevant loan's status and the borrower's ability to make payments of principal and interest.

12. It was the practice within SAD that when SAD relationship managers initiated action to place a loan on nonaccrual status, they would submit a supporting form to their regional manager that showed their conclusions and justified how they determined that a loan should be placed on nonaccrual status. The SAD regional manager would conduct a detailed review of the loan with the responsible relationship manager preliminary to making a final recommendation.

13. It was Regions Bank's policy and practice either that Neely, as the Bank's then-Business Services Credit Executive, or the Bank's chief credit officer, could approve any level of nonaccrual change or charge off if circumstances warranted. The particular circumstance would require, consistent with regulatory policy and safe and sound banking practice, that the particular loan met the definition of nonaccrual or accrual.

14. Once the approval/recommendation was granted by the SAD regional manager, any subsequent exception to classifying the loan in nonaccrual status would, consistent with safe and sound banking practice, require additional documentation supporting the exception including, but not limited to, completion of an "Accrual Status Verification" form.

15. It was Neely's practice to involve credit officers, who worked outside of SAD and reported directly to Neely, to participate in the workout of loans moved to SAD. Credit officers' primary responsibility was on the approval side of the loan process. Their loans moved over to SAD only when they were internally risk-rated 70 and above.

16. The Credit Risk Reporting group within Regions Bank's risk management structure, prepared an internal report known as the Asset Quality Forecast ("AQF"). The Credit Risk Reporting group had a dotted-line report to Neely. The AQF was the principal forecasting tool used by Neely and the Bank's chief credit officer and its Head of SAD to track the processing of commercial real estate and other business services loans recommended by SAD regional managers and relationship managers for nonaccrual or charge-off. The AQF, among other things, reported a weekly summary of the total amount of charge-offs and the total amount of business services NPLs forecasted to be reported as nonaccruals for a given business quarter. The total amount of business services NPLs also was broken down into categories of loans, including a category for the total amount of non-performing loans $2.5 million and over. The AQF identified, among other things, those loans that had been recommended by the SAD regional managers and relationship managers for placement on nonaccrual status for the business quarter.

17. Neely presided over a weekly meeting with SAD staff, including appropriate SAD regional managers and relationship managers, to track and review the status of loans recommended by the SAD regional managers for nonaccrual status for the business quarter.

18. When a large commercial real estate or other loans greater than $2.5 million recommended for nonaccrual status by the SAD regional manager and relationship manager had been determined internally that it would be placed on nonaccrual, the loan would be keyed into a processing list known as "Report 6." Report 6 was designed as an electronic record documenting the specific actions for individual loans to be

formally taken by Regions Bank and reflected in the Bank's accounting systems. The Report 6 was prepared by staff within Region Bank's Credit Risk Reporting group.

**Regions Bank's levels of NPLs, including nonaccruals, had a significant impact on the Bank's financial performance**

19. In 2008 and continuing through at least the first quarter of 2009, the level and trend of Regions Bank's portfolio of nonaccrual loans had a significant effect on the Bank's financial performance and, by implication, market opinion.

20. In the fourth quarter of 2008, Regions Bank sold or marked $1.6 billion in nonperforming assets related to commercial real estate.

21. As of December 31, 2008, Regions Bank increased its total allowance for credit losses to $1.9 billion that included a provision of $1.15 billion in response to its historic loss experience.

22. As of December 31, 2008, Regions Bank reported an ending balance for nonaccruals of $1.052 billion, which represented a decline of $389 million due to the Bank's accelerated disposition of non-performing assets.

**Neely set and managed to quarterly goals for NPLs, including nonaccruals**

23. It was Neely's practice to manage to a goal for total business services NPLs for a given business quarter, which included the dollar volume of loans being moved to nonaccrual for that quarter. Over this period, Neely repeatedly stressed the importance of meeting these goals to Regions Bank's chief credit officer ("chief credit officer"), Head of SAD ("Head of SAD"), and SAD regional managers and relationship managers and credit officers outside of SAD.

24. On January 31, 2009, Neely circulated an email to Regions Bank's chief credit officer, Head of SAD and select SAD regional managers, as well as select credit officers outside of SAD who reported to Neely, among others, on the subject of "FL Region's

AQF," which stated: "I have reviewed the FL Region's AQF and have a hit list of relationships forecasted to go NPL. Please work as a team to either negotiate a restructure that would keep these from going non performing this quarter. If impossible please focus on selling these this quarter."

25. Between February 4, 2009, and February 6, 2009, Neely exchanged emails with Regions Bank's chief risk officer and its chief credit officer, on the subject of the "NPL forecast," in response to a report from Neely to the Bank's chief risk officer that: "[i]n today's AQF meeting the entire AIG/Baker relationship was added to our NPL projection. If all of the loans go NPL our goals will be at risk." Neely stated that he would direct group credit officers outside of SAD who reported to Neely "to get involved with SAD to try to work this out."

26. On February 11, 2009, Neely sent an email to Regions Bank's chief risk officer and its chief credit officer on the subject of the "NPL forecast," that reported what became the goal for total business services NPLs for the first quarter of 2009 was $1.551 billion (the "$1.551 billion goal"). Large commercial real estate and other loans recommended for nonaccrual status was a subset of total business services NPLs.

27. Neely caused a weekly Credit Division summary to be prepared and presented to Regions Bank's chief risk officer, its chief-credit officer, and its Head of SAD at regularly scheduled meetings to discuss, among other things, the nonaccrual forecast for business services. These written summaries frequently contained discussions of business services NPLs in relation to goals and targets. The Credit Division summary for week ended February 27, 2009, states: "NPL forecast increased $77mm week over week. The forecast is OVER target by $111mm. … Target will be difficult to hit given the volatility in the forecast."

28. Neely's practice of focusing on goals for NPLs continued into the second quarter of 2009. On April 17, 2009, only a few weeks into the quarter, Neely sent an email to his credit officers, who worked outside of SAD, but reported to Neely, with copies to Regions Bank's chief credit officer and its Head of SAD on the subject of "2nd quarter goals," that states: "[o]ur goals this quarter are simple but very challenging, they are [among other things] [f]or your area to hit the NPL forecast as reported in the 4/17 AQF. … For us to be successful we MUST own these goals and challenge our partners to help us achieve these. Beginning next week we will have weekly 15 minute meetings to report our progress on hitting the goals." When one of Neely's credit officers challenged him that ""our classifieds will not be flat this quarter as the CRE book deteriorates and more HBF credits bleed out. You have our recent projections. Chargeoffs will be driven by valuation issues as reappraisals come in. These issues are out of our control," Neely responded that it was "I suggest you look into the book of current classifieds for any upgrade opportunities. Too early to through [sic] the towel." The Bank's Head of SAD forwarded Neely's April 17 email to the SAD regional managers that same day. In response, one SAD regional manager emailed several of his peers that: "[a]s far as we know, no one was consulted. Nevertheless, what Tom Neely has outlined below are now our goals. There is no ambiguity or room for negotiation. It is what it is."

29. Neely understood that the nonaccrual goals were presented to Regions Bank's Executive Council, which consisted of the Bank's senior most management, including its chief executive officer, its chief financial officer and its chief risk officer. For example:

a) On December 19, 2008, Neely was copied on an email from one of his subordinate employees to the Head of SAD, on the subject of "In-Play' NPL's as of 12/18," which states that even after achieving $23.7MM in reductions, "[t]hat leaves $12.2MM in reductions to forecast to achieve before year end to meet the year end plan numbers presented to EC this week;"

b) On February 19, 2009, Neely was involved in an exchange with Regions Bank's chief credit officer on the topic of the credit forecast for the first quarter of 2009 that would be presented to the Bank's Executive Council on February 23, 2009, which proposed to report: "we still believe we can deliver on the $420mm loss budget, and will be close on the NPA piece …," despite the fact that it was only midway through the business quarter during one of the most precipitous economic declines in history;

c) On March 23, 2009, Neely made a presentation to the Executive Council that total expected NPLs for the first quarter of 2009, which comprised both total business services nonaccruals and consumer nonaccruals, was $1.659 billion; and

d) In a series of emails between June 3, 2009, and June 5, 2009, Neely was a recipient of an email correspondence with Regions Bank's chief credit officer and one of Neely's subordinate employees on the subject of the "AQF," the chief credit officer, in response to Neely's statement that "NPL projections are through the roof …," stated that "[a]t the end of May we are over what we told EC. … Think this will be the focus of our Monday …meetings with the Bank's [chief risk officer]."

30. Neely and others at his direction prepared or caused to be prepared a "hit list" of large-balance commercial real estate and other loans that were forecast to go nonaccrual for

a given business quarter as a method of tracking loans in order to meet the goal established for that particular quarter.

31. Neely prepared or caused to be prepared "in-play" lists of large-balance commercial real estate and other loans may go nonaccrual for a given business quarter as a method of tracking loans in order to meet the goal established for that particular quarter.

32. Neely and others at his direction commonly used the term "fixed" within SAD to mean that a loan was not going nonaccrual for a given business quarter based on a SAD recommendation.

**Neely failed to maintain objective, rigorous and well-documented controls and procedures for identifying certain large-balance commercial real estate and other loans for nonaccrual status for the first quarter of 2009**

33. Report 6 as of February 28, 2009 ("February 28 Report #6") listed, among others, the following large-balance commercial real estate and other loans, totaling $91.1 million, as nonaccruals for the first quarter of 2009 as recommended by the relevant SAD regional managers and relationship managers:

a) Designer's Choice, $2.6 million;
b) First West Cutler, $10.9 million;
c) Glove Factory, $24.7 million;
d) McCar Development, $9.4 million;
e) Resorts Construction, $21.2 million;
f) Seahaven Finance, $6.8 million; and
g) Waters Edge, $15.5 million.

(Hereinafter referred to as the "Pulled Loans").

34. The Pulled Loans reported on the February 28 Report 6 continued to be reported as nonaccruals on the AQF until at least March 11, 2009.

35. On March 9, 2009, Neely was informed by email from Regions Bank's Head of SAD that total business services as of that date totaled $1.447 billion, which was in line with Neely's $1.551 billion goal for first quarter 2009 business services NPLs.

36. The AQF as of March 11, 2009 (the "March 11 AQF") reported total business services NPLs of $1.55 billion, which was in line with Neely's $1.551 billion first quarter 2009 goal for total business services NPLs. The March 11 AQF also continued to report the Pulled Loans, among others, as nonaccruals for first quarter 2009.

37. The Pulled Loans identified and reported on the February 28 Report #6 and the March 11 AQF had been recommended for nonaccrual for the first quarter of 2009 by the appropriate SAD regional managers and relationship managers, and in some cases by credit officers outside of SAD who reported directly to Neely, because the information available on the loans at that time indicated that full collection of all principal and/or interest on each loan was doubtful.

**Neely caused certain large-balance commercial real estate and other loans totaling $91.1 million to be pulled from nonaccrual status in March 2009 to meet the nonaccrual goal**

38. In the early morning of Friday, March 13, 2009, Regions Bank's chief credit officer reported in an email to Neely and its Head of SAD, among others, that a Credit Risk Reporting employee had told him the night before that "NPLs are understated by $200mm [million]." The email requested Neely, among others, to"[p]lease get with [m]e ASAP—let me know via e-mail whether we have a problem or not."

39. According to the Credit Risk Reporting employee primarily responsible for the discovery of the approximately $200 million understatement, Neely was so upset that she feared for her job.

40. Knowledge of the approximately $200 million understatement was closely held by and between Neely and Regions Bank's chief credit officer, its Head of SAD, and its chief risk officer. There is no indication that the $200 million understatement was ever reported to Region's Executive Council.

41. The Credit Division summary caused to be prepared by Neely for the week ending March 13, 2009, in preparation for the regular Monday morning meeting with Regions Bank's chief risk officer, reported that: "NPL forecast has been impacted by an error discovered on the AQF summary. Working through AQF over weekend. There are currently $92mm of 'in-play' projected NPLs."

42. Working over the weekend following the discovery of the approximately $200 million understatement, Credit Risk Reporting staff confirmed that total business services nonperforming loans were, in fact, understated. Staff determined that the understatement was due to errors in reporting that were completely unrelated to the reporting of large commercial real-estate and other loans over $2.5 million. Indeed, the revised numbers reflected a decrease in the total of large commercial real estate and other loans over $2.5 million by approximately $38 million.

43. As a result of the understatement, various internal bank documents compiled by Credit Risk Reporting at the direction of Neely and Regions Bank's chief credit officer and its Head of SAD during the period between March 14, 2009 and March 17, 2009, including the AQF summary as of Saturday, March 14, 2009, reported that total business services NPLs had risen to $1.74 billion, which was $190 million higher than Neely's $1.551 billion first quarter 2009 goal for total business services NPLs.

44. On Monday afternoon, March 16, 2009, an email was circulated within SAD by its Head of SAD to Neely, the Bank's chief credit officer, and all SAD regional managers , among others, regarding a scheduled Tuesday morning, March 17, 2009, meeting "to discuss … NL's $2.5MM and greater. … using the 3/11 AQF as a basis for discussion." The email attached an "in-play" list, dated March 12, 2009, but titled "In-Play' NPL Reductions as of 3/11/09 AQF" (the "March 12 In-Play List"). The March 12 In-Play

List did not include any of the Pulled Loans, with the exception of the $9.6 million McCar Development loan.

45. Between March 14 and March 18, 2009, Neely, working closely with Regions Bank's chief credit officer and its Head of SAD, and the Credit Risk Reporting staff to find ways to close the approximately $200 million understatement, in part by reducing the total dollar amount of nonaccruals, in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs. Neely, among others, directed his subordinates to take steps to pull approximately $150 million in large-balance commercial real estate and other loans from nonaccrual, including the Pulled Loans despite the recommendations of the seasoned and professional SAD regional managers and credit officers that the loans should be classified as nonaccrual for the first quarter of 2009, in order to meet Neely's $1.551 billion first quarter 2009 goal for total business services NPLs. Neely directed his staff to take these steps despite the fact that the Pulled Loans were reported as nonaccruals on the February 28 Report #6 and the March 11 AQF, and that the vast majority of the loans were not even considered to be "in-play" up to that point. These steps included Neely exerting pressure on SAD regional managers and credit officers to pull certain large-balance commercial real estate and other loans from nonaccrual processing in order to meet their $1.551 billion first quarter 2009 goal for total business services NPLs, which included the Pulled Loans.

46. On March 17, 2009, Neely sent an email to the credit officer for the $21.2 million Resorts Construction loan asking "if I needed to leave Resorts Construction on accrual over quarter end what would be some of my arguments?" Neely's email request excluded the relevant SAD regional manager for the Resorts Construction loan, whose recommendation was that that the loan go on nonaccrual for the first quarter 2009.

Neely's email request was sent despite having been informed in a series of emails dated between March 4, 2009 and March 9, 2009 from Regions Bank's Head of SAD and from the credit officer on the Resorts Construction loan that loan was definitely a nonaccrual. The Bank's Head of SAD reported to Neely that both the SAD regional manager and the credit officer "believe it is now a March NPL. It is an Orlando condo project with ties to Allen Stanford. Possible fraud issues. Don't have a lot of details but would recommend adjusting NPL's for March up by the $20MM."

47. On March 9, 2009, Regions Bank's Head of SAD sent Neely an email that included a handwritten "fixed" list that indicated that another loan, the $2.6 million Designer Choice loan, was being downgraded to nonaccrual.

48. On March 17, 2009, Neely sent an email to two credit officers who worked outside of SAD and reported directly to Neely on the subject of "NPL help": "Need your thoughts. If I needed to defend leaving the following on accrual status over quarter end what should be some of my arguments. The FL list are: Seahaven, Richland, [First] West Cutler, Opus Waters Edge, Lyons Land. Are there any others? I am looking for anything." Seahaven, First West Cutler and Waters Edge were among the Pulled Loans. Neely's email request excluded the relevant SAD regional managers. For example, Neely did not include the SAD regional manager, who was most knowledgeable about the loan, who had already recommended that the $10.5 million First West Cutler loans be classified for nonaccrual for the first quarter 2009.

49. The two credit officers, who worked outside of SAD and reported directly to Neely, who were recipients of Neely's March 17 email believed that the $6.8 million Seahaven loan and the $15.5 million Waters Edge loan should both be classified as nonaccrual for the first quarter of 2009. Indeed, on March 16, 2009, the credit officer for the Waters

Edge loan sent Neely an email that stated that the other bank that held a participation in that credit "is in the process of taking this one to nonaccrual …."

50. On March 17, 2009, Neely sent an email to a credit officer, who worked outside of SAD and reported directly to Neely, on the subject "Glove Factory": "If I wanted to leave the credit on accrual over quarter end what should be some of my arguments?" Neely's email request excluded the relevant SAD regional manager for the Glove Factory loan who had already recommended that the approximately $24.7 million loan should be classified as nonaccrual for the first quarter 2009.

51. As to the Glove Factory loan, on March 16 and March 17, 2009, Neely, without the knowledge of the relevant SAD regional manager or even the relevant credit officer on that loan, who worked outside of SAD but reported directly to Neely, engaged in unsuccessful negotiations with a prospective purchaser to sell the Glove Factory loan at "a price point of 65 to 70 cents on the dollar," which would have resulted in a loss to Regions on the credit of approximately between $7.4 and $8.6 million. On March 16, 2009, Neely had contacted the representative of a prospective buyer of the Glove Factory loan inquiring if there was "[a]ny interest to buy?" Upon confirmation of interest, Neely responded: "Need $ amount. Interest is to move fast at best price." The offer on the table at the time was .35 cents on the dollar, which would have resulted in a loss of approximately $16 million on the loan. This same offer had been reported to Neely in late February 2009 by the relevant credit officer for the Glove Factory loan, who had reported that "[i]f we work [the prospective purchaser] up to $.50 then we would have roughly a $12mm loss."

52. On or about March 17, 2009, Neely and Regions Bank's chief credit officer communicated with the Head of Region Bank's Consumer Services credit division to

request $20 million in "saves" from that division's end of quarter numbers that could be moved to the next business quarter. By email dated March 17, 2009 on the subject of "Quarter End," the Bank's chief credit officer stated: "We are working on NPL projections. I have your ending number totaling $189mm. We are looking for saves and Tom though [sic] you could manage with $20mm less, leaving your total at $169mm."

53. In or about mid-March 2009, Neely and Regions Bank's chief credit officer instructed SAD back-office staff to stop processing any risk rating changes from March 18 through March 31, 2009.

54. On or about March 18, 2009, Neely and Regions Bank's chief credit officer, with the knowledge of the Bank's Head of SAD, caused Credit Risk Reporting staff to pull certain large-balance commercial real estate and other loans totaling approximately $149.3 million, which included the Pulled Loans, from nonaccrual status and be kept on nonaccrual in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs. At this direction, Credit Risk Reporting staff took steps to remove the loans, including the Pulled Loans, from the February 28 Report #6. The Pulled Loans were pulled from nonaccrual status contrary to the recommendations of, and without the knowledge of, the relevant SAD regional managers for those loans, as well as certain of the credit officers who were responsible for the loans. The decisions to keep the Pulled Loans on accrual was contrary to the true condition of those loans at that time, which supported that full collection of principal and interest on the loans was doubtful, and were made without any documentation of a change in the condition of the loan supporting a reasonable conclusion that full collection of principal and interest was expected. In the case of six of the seven Pulled Loans, contrary to Regions Bank's

policy and practice, no accrual status verification form was completed to support the decision to keep the loans on accrual.

55. In taking the undocumented and unjustified steps in keeping the Pulled Loans on nonaccrual status, Neely circumvented Regions Bank's policies and procedures regarding the classification of loans into nonaccrual status, which resulted in an improper classification of the Pulled Loans in the Bank's accounting systems at the quarter ended March 31, 2009. In accordance with both regulatory accounting principles and generally accepted accounting principles, and Regions Bank's policies and procedures, the Pulled Loans were required to have been classified in nonaccrual status at the business quarter ended March 31, 2009.

56. On March 23, 2009, Neely and Regions Bank's chief credit officer reported to the Executive Council that total NPLs, comprising both business services and consumer services for the first quarter of 2009, was $1.641 billion, which includes total business services NPLs as well as consumer services NPLs.

57. Neely failed to disclose to the Executive Council at any time, including the March 23, 2009 monthly update on Credit Quality, that:

a) an approximately $200 million understatement had been discovered in the AQF on or about March 13, 2009, which resulted in actual total business services NPLs increasing to $1.74 billion, which exceeded the $1.551 billion goal for total business services NPLs for the first quarter of 2009 by $190 million;

b) Neely and Regions Bank's chief credit officer, with the knowledge of its Head of SAD, were able to "fix" the $190 million difference between the $1.74 billion reported for total business services NPLs between March 14 and March 18, 2009 and the $1.551 billion reported for total business services NPLs in the March 11

AQF in order to reach the $1.551 billion goal for total business services NPLs for the first quarter of 2009;

c) Neely and Regions Bank's then-credit credit officer, with the knowledge of its Head of SAD, had directed the pulling of the Pulled Loans totaling $91.1 million, which were reported as nonaccruals on the February 28 Report #6 and the March 11 AQF for the first quarter of 2009, over the recommendation of and without the knowledge of the relevant SAD managers and certain of the credit officers responsible for the loans, and contrary to the true and accurate condition of those loans at that time, which supported a classification of nonaccrual in order to meet the $1.551 billion first quarter 2009 goal for business services NPLs;

d) six of the seven Pulled Loans were not even "in-play" for accrual as late as March 16, 2009; and

e) Neely had directed that seven other large-balance commercial real estate and other loans totaling $88.8 million that were held in SAD and scheduled for nonaccrual for the first quarter of 2009, at least as of the March 11 AQF, be moved to Held for Sale on March 30, 2009 in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs. They also failed to disclose that the markdown on six of the seven loans was taken based on an unspecified bid dated March 20, 2009, which was contemporaneous with the March 18, 2009 directives to keep the Pulled Loans on accrual;

This information would have been relevant and material to Regions' senior management, including its Executive Council at that time.

58. SAD regional managers and credit officers on the Pulled Loans were shocked to learn that loans within their responsibility had been pulled from nonaccrual processing, only

learning when a SAD employee sent an email to SAD regional managers on March 20, 2009 that stated: "FYI – changes to the recommended NPAs for March. Below is a list of NPAs pulled/added in March. Some may need to go back on the AQF in April." The employee attached an internal report titled "NPL Changes," which listed all of the loans pulled from the February 28 Report #6. Neely became upset when he learned of the SAD employee's transmission of the NPL Changes report and caused her to be demoted to another position outside of SAD.

59. On or about April 24, 2009, each of the Pulled Loans were finally placed on nonaccrual despite there being no material change in the true condition of the loans that had formed the basis for the recommendations of the relevant SAD regional managers and, in some cases, credit officers that the loans be classified as nonaccrual during the first quarter of 2009.

**Neely's Actions Caused Regions Bank to File Inaccurate Regulatory Reports**

60. Regions Bank, as with all state member banks, is required to file a consolidated Call Report normally at of the close of business on the last calendar day of each calendar quarter. The Bank is responsible for the accuracy of the data in the Call Report.

61. Regions Bank is responsible for accurately reporting all loans that are in nonaccrual status during the quarter in its Call Report.

62. The Call Report's instructions to Schedule RC-N provide that "an asset is to be reported as being in nonaccrual status if: (1) It is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) Payment in full of principal or interest is not expected, or (3) Principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection."

63. The Call Report's instructions to Schedule RC-N provide that [a]n asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

64. The Call Report includes a line item (Item No. 7) to one of its schedules for "Additions to Nonaccrual Assets During the Quarter" and instructs that banks should "[r]eport the aggregate amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status during the calendar quarter ending on the report date. Include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule RC-N, column C, items 1 through 9. Also include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the aggregate amount of assets placed in nonaccrual status since the prior quarter-end that should be reported in this item should not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, report the amount of the asset only once."

65. By virtue of Neely's and Regions Bank's chief credit officer's, and with the knowledge of its Head of SAD's, removal of the Pulled Loans from nonaccrual status on or about March 18, 2009, the Bank's Call Report did not fully and accurately report the additions to nonaccrual assets during the quarter reported in Schedule RC-N.

66. Regions Bank is also responsible for accurately reporting its provision for loan and lease losses in its Call Report.

67. The Call Report's instructions to Schedule RI-B provide that the line item "[p]rovision for loan and lease losses" should "report the amount expensed as the provision for loan and losses during the calendar year-to-date. The provision for loan and lease losses represents the amount needed to make the allowance for loan and lease losses adequate to absorb estimated loan and lease losses, based upon management's evaluation of the bank's current loan and lease exposures."

68. By virtue of Neely's, and Regions Bank's chief credit officer's, and with the knowledge of its Head of SAD's, removal of the Pulled Loans from nonaccrual status on or about March 18, 2009, the Bank's Call Report for the first quarter of 2009 did not fully and accurately report the provision for loan and lease losses. If the Pulled Loans had been properly placed on nonaccrual in the first quarter of 2009, the total amount of additions to nonaccrual assets during the quarter would have increased by $91.1 million, then the Bank would have been required to make at least an additional $8.1 million provision to its loan and lease loss reserve. The Bank would have also been required to reverse out the $879 million pre-tax interest income from the subject loans. These changes would have had a dollar for dollar pre-tax reduction on the Bank's earnings for the first quarter of 2009. The Bank's Call Report would have been impacted at least an additional $2.9 million if the Glove Factory loan had been properly

marked to Held for Sale by virtue of Neely's considerable efforts to sell the loan on March 16 and 17, 2009.

69. The increases that would have resulted from the truthful and accurate reporting of Regions Bank's non-performing loans in the first quarter of 2009 would have been material to the Bank's financial reporting. The Bank reported a profit of $26 million available to common shareholders for the first quarter of 2009. The Bank acknowledged the importance of non-performing loans as a reflection of its performance in its first quarter 2009 earnings press release issued on April 21, 2009, which identified the $1.6 billion increase in non-performing loans as one of its "key" items. On the Bank's earnings call conducted on that same date, the Bank again emphasized the importance of non-performing loans as a reflection of the its performance, reporting that:

a) non-performing loans increased $589 million to $1.6 billion during the first quarter of 2009; when in fact new non-performing loans should have been reported to increase by an additional $91.1 million or an additional 15.6 percent; and

b) "while total NPAs rose, inflows of new NPAs remained relatively stable. … While NPA's rose in the first quarter, it's important to note that the increase was NOT due to higher inflows …;" when in fact new NPAs should have been reported to increase by an additional $107.3 million or an additional 8.75 percent.

70. On or about May 11, 2009, Regions Financial filed its quarterly 10Q report with the Securities and Exchange Commission ("SEC") for the first quarter of 2009 ("Regions Financial 1Q2009 10Q"), which was subsequently amended on May 13, 2009 to correct certain typographical errors, and again on June 9, 2009 to file the certifications required

by Section 906 of Sarbanes-Oxley, 18 U.S.C. §1350. The Regions Financial 1Q2009 10Q similarly did not truthfully and accurately report the Bank's total of nonperforming loans for the first quarter of 2009.

71. Between April 17 and May 6, 2009, in connection with the preparation of the Regions Financial 1Q2009 10Q, Neely signed and submitted a "Senior Leader SOX/FDICIA Certification" ("sub-certification") to the Company's SEC Filing Review committee in connection with its requirement to internally certify to the Bank's chief executive officer and its chief financial officer the existence and effectiveness of disclosure controls and procedures and internal control over financial reporting in connection with the filing of the Regions Financial 1Q2009 10Q. Neely was required to recognize and acknowledge that his review and execution of the memorandum is a significant part of the procedure in enabling the SEC Filing Review committee's to provide its certification. In his certification, Neely, to the best of his knowledge, certified in writing with regard to any of the Company's disclosure controls and procedures and/or internal controls over financial reporting within their areas of responsibility that, among other things:

a) "Such disclosure controls and procedures are designed to ensure that material information relating to Regions, including its consolidated subsidiaries, is made known to me and you by others within those entities, particularly during the period for which the Report is being prepared;

b) Such internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and regulatory guidance; and

c) Based on such evaluation, concluded that such disclosure controls and procedures and internal control were effective."

72. Neely separately certified in writing to the best of his knowledge that they were not aware of, among other things:

a) "Any significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect Regions' ability to record, process, summarize and report financial information; or

b) Any fraud, whether or not material, that involves management or other associates who have a significant role in Regions' internal control over financial reporting;"

73. Finally, Neely certified in writing to the best of this knowledge that "I will notify you immediately if anything comes to my attention prior to the filing of the 10-Q that would cause any statements in this certification to be incorrect. I have conducted such reviews within all of my areas of responsibility to enable me to make this certification."

74. Neely's execution of this sub-certification imposed a continuing obligation upon him to notify Regions Financial's SEC Filing Review committee, as well as the Company and Region's Bank's Executive Council and their board of directors, among others, of any matters that came to his attention even after the filing of the Regions Financial 1Q2009 10Q that caused any of his statements in the certification to be incorrect.

75. Notwithstanding his obligation in executing the sub-certification, Neely signed the Senior Leader SOX/FDICIA Certification:

a) despite the events of March 2009 surrounding his decision to remove the Pulled Loans from nonaccrual in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs; and

b) despite failing to disclose to Regions Financial's SEC Filing Review committee, the Bank's Executive Council, its Board of Directors or to anyone else the events of March 2009 surrounding his involvement in his decision to remove the Pulled Loans from nonaccrual in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs.

76. Neely's actions, as set forth herein, would have been material to the bank regulators and would likely have had a material effect on the bank regulators supervision of Regions Bank at that time. Neely's actions also would have been relevant and material to the Bank's Executive Council, its Board of Directors and other senior management.

**Neely also moved loans in SAD to Held For Sale to close the $200 million understatement**

77. During the first quarter of 2009, it was a practice within SAD to engage in note sales and moving loans to held for sale as a way to manage the volume of nonaccruals. Neely was responsible for approving all notes sales and moving loans to held for sale. Given the dramatic downturn in the commercial real estate market, it was likely at that time that any note sale involving a loan that had been moved to SAD would result in a loss to Regions.

78. On March 30, 2009, Neely directed that seven other large-balance commercial real estate and other loans held in SAD, with a book balance of $88.8 million, be moved to held for sale and marked down at the end of the first quarter of 2009 by $30.35 million. Coincidentally, six of the seven loans were valued by bid rather than by a written purchase and sale agreement and the bid date for each loan was March 20, 2009. Each of the loans had been listed on the March 11 AQF as nonaccrual. The transfer of these loans to Held for Sale assisted Neely in his effort to reduce total business services NPLs to meet the $1.551 billion first quarter 2009 goal for business services NPLs.

**Neely made or caused to be made false statements to, withheld material information from, falsified internal Regions Bank' records submitted to, the bank regulators during the course of the regulators May 2009 targeted examination of the Bank's nonaccrual process that obstructed and impeded the bank examination process**

79. On May 13, 2009, the Federal Reserve Bank of Atlanta ("Reserve Bank"), and subsequently, the Alabama State Banking Department ("Department"), notified Regions Bank that it was immediately commencing a targeted examination of the Bank's nonaccrual process, which included a transaction testing review of certain loans that had been identified as having been pulled from nonaccrual in March 2009 (the "May 2009 Targeted Exam"). The scope of the May 2009 Targeted Exam included each of the loans, totaling $149.3 million, that were pulled from nonaccrual on or about March 18, 2009 including, but not limited to, the Pulled Loans.

80. On May 13, 2009, a kick-off meeting was held between the four Reserve Bank examiners assigned to the May 2009 Targeted Exam and various Regions' employees, including Neely, to discuss the focus of that exam. At that meeting, the examiners stated that they wanted to develop a very detailed understanding of the bank's nonaccrual processes.

81. Neely, assisted by Regions Bank's chief credit officer and its Head of SAD, orchestrated the Bank's response to the Reserve Bank's May 2009 Targeted Exam. During the course of the exam, Neely, directly and indirectly, took a series of steps designed to obstruct and impede the Reserve Bank examiners' ability to understand the Bank's nonaccrual process and to understand who was responsible for, among other things, the removal of the Pulled Loans from nonaccrual status in March 2009. Neely, directly and indirectly, made false statements to and withheld material information from the examiners in an effect to falsely convey that the decisions to pull the loans were made by seasoned and professional SAD regional managers and credit officers when, in fact, the decisions to pull the loans were made by Neely, and the Bank's chief credit officer, with the knowledge of its Head of SAD, to meet the $1.551 billion first quarter 2009 goal for total business services NPLs.

82. After the May 13, 2009, kick-off meeting, Neely told certain Credit Risk Reporting staff not to put anything in writing regarding the matters that were the subject of the May 2009 targeted exam. At a meeting shortly after the May 13 kick-off meeting, Neely, upon observing a Credit Risk Reporting employee taking handwritten notes, grabbed the notes out of her hand and ordered her out of the meeting.

83. Neely and Regions Bank's chief credit officer gave an instruction that staff were not to meet alone with Reserve Bank examiners, but should always be accompanied by another Regions' employee selected by management.

84. Neely and Regions Bank's chief credit officer, with the knowledge of its Head of SAD, gave staff a verbal instruction to not disclose the existence of the AQF to the Reserve Bank examiners and, if the examiners did ask about the AQF, to deny its existence. Consistent with this instruction, on or about May 14, 2009, Regions' staff distributed to

the Reserve Bank examiners, with the knowledge and approval of Neely, the Bank's chief credit officer and its Head of SAD, a document titled "Stages of NPL Process." The document, which purported to explain the Bank's nonaccrual process, failed to make any reference to the AQF despite the fact that it was the only tool used by SAD to track the processing of commercial real estate and other business services loans recommended by SAD regional managers and relationship managers for nonaccrual or charge-off.

85. On May 14, 2009, Regions Bank's Credit Risk Reporting staff met with two Reserve Bank examiners to explain and demonstrate the Bank's nonaccrual processing. In preparation for that meeting, Credit Risk Reporting staff was instructed on what information to provide the Reserve Bank examiners. Consistent with Neely's instruction that the AQF be withheld from the Reserve Bank examiners, Credit Risk Reporting staff did not provide the AQF. Credit Risk Reporting staff also did not provide the February 28, 2009 Report #6, but rather, provided a Report #6 dated as of March 31, 2009, which did not report any of the Pulled Loans.

86. At some point between May 13 and May 15, 2009, after the May 13 kick-off meeting, Neely directed a Credit Risk Reporting staff member to change the title of an internal bank report, originally titled "NPL Changes" that had been prepared in late-March 2009 to report the additions and pulls to the February 28 Report #6 and the March 11, 2009 AQF that occurred in March 2009, to "Modifications from SAD Regional Managers." The newly titled Modifications from SAD Regional Managers report was intended to be provided to the Reserve Bank's examiners to create the false impression that the March 2009 decisions to pull certain large-balance commercial real estate and other loans including, but not limited to, the Pulled Loans that were the focus the May

2009 Targeted Exam, were made by the SAD regional managers, not by Neely and the Bank's chief credit officer, with the knowledge of its Head of SAD. The Modifications from SAD Regional Managers report was initially provided to the Reserve Bank examiners on or about May 15, 2009, and was later provided to the Reserve Bank in a formal written submission from Neely, the Bank's chief credit officer and its Head of SAD dated May 29, 2009.

87. In compiling responsive documents regarding the Pulled Loans that were the focus of the May 2009 targeted exam, SAD senior-level staff acknowledged that there was insufficient support for Neely's decision to remove the Pulled Loans from nonaccrual status. For example, no accrual status verification forms had been completed for the Bank's re-accrual of six of the seven Pulled Loans. Indeed, on May 19, 2009, Regions Bank's Head of SAD reported to Neely, among others, on the subject of "Review of Q1 Accrual Status Verification (ASV) Forms," that a review of "the list of credits the Fed has requested" and comparison with "the accrual status verification forms for Q1 …," revealed that no internal documentation supported non-accrual status for, among others, the following five of the seven Pulled Loans: Designers Choice, Glove Factory, McCar, Seahaven, and Waters Edge.

88. During the course of the May 2009 Targeted Exam, Neely was aware that certain SAD regional managers and credit officers who were responsible for the Pulled Loans disagreed with his decision to pull the credits from nonaccrual and refused to sit in on loan discussions with Reserve Bank examiners regarding their loans because they did not wish to lie to the examiners.

89. On May 26, 2009, the Reserve Bank examiners made a written information request of Regions for: "a narrative/justification on the credits listed below that were pulled from

the credits nominated for nonaccrual status in the months of March and April 2009. The narrative should detail who authorized/instructed the credit be maintained in an accrual status. The narrative should be on Regions' letterhead, dated, and each level of the chain should sign and indicate their concurrence/non-concurrence with the decision (e.g., relationship manger, regional manager, SAD Director, Head of Business Services, and Chief Credit Officer)" (the "May 26 Exam Request"). The listed credits included the Pulled Loans. The May 26 Exam Request was forwarded to Neely, among others, including the Bank's chief credit officer and Head of SAD, who met to discuss the request on May 27, 2009.

90. On May 27, 2009, Neely, among others, received an email from Regions Bank's Head of SAD describing the Reserve Bank's request for narrative statements and circulating a word template to be used in completing this exercise and stated that "[we] want to keep the responses as consistent as possible." The email further stated that "[a] final issue that is being requested is a notation of who initiated/requested removal of a given credit from the NPL processing list." The May 27 email also indicated who would be assigned responsibility for preparing the respective narratives statements. Of particular note is that the Bank's Head of SAD assigned himself responsibility for preparing the narrative statements for the $10.9 million First West Cutler loan and the $20.2 million Resorts Construction loan, rather than the SAD regional managers who had been responsible for and were most knowledgeable about those loans.

91. On May 29, 2009, Regions Bank formally responded to the May 26 Exam Request by written letter to the Reserve Bank and the Alabama State Banking Department signed by the Bank's Head of SAD and copied to both Neely and the Bank's chief credit officer, regarding "Requested Non-Accrual Status Narrative Documents." (the "May

29 Exam Submission"). Neely reviewed and discussed the letter prior to its submission.

92. The May 29 Exam Submission made false statements to and withheld material information from the examiners in order to hide Neely's role in the decisions to pull the loans from nonaccrual. The cover letter to the May 29 Exam Submission falsely attributed the decisions to "judgment calls and in many cases timing." For example, the cover letter cited the $24.7 million Glove Factory loan as an example of where "the Bank and the examiners having differing opinions as to accrual status as of 3/31/09 …," and where "the Bank and the examination team have different perspectives …." The cover letter failed to explain that the Glove Factory loan was kept on accrual against the recommendation of and without the knowledge of the SAD regional manager and that Neely had engaged in unsuccessful negotiations with a prospective purchaser to sell the Glove Factory loan, which would have resulted in a loss to Regions Bank at the time of between $7.2 and $16 million, at the same time that Neely caused the loan to be pulled from nonaccrual.

93. In the cover letter to the May 29 Exam Submission, Neely finally conceded that the $10.9 million First West Cutler loan, which was one of the Pulled Loans, should have been nonaccrual in the first quarter of 2009. However, Neely again failed to disclose that he was responsible for causing the loan to be pulled from nonaccrual status over the recommendation of the SAD regional manager assigned to the loan.

94. As to the remaining loans that were the subject of the May 2009 Targeted Exam, including the remaining Pulled Loans, the cover letter falsely stated, in language that was specifically reviewed and discussed by Neely, among others, that "[o]n the remaining credits, we believe our timing to be appropriate based upon our very

seasoned and professionally experienced Regional Managers and Credit Officers making the calls ...." This statement was false because, as Neely knew, SAD regional managers and certain credit officers did not make the calls on the Pulled Loans; he had.

95. The cover letter to the May 29 Exam Submission further stated that "[a]s we discuss accrual status calls which differ by one month, I think it is important to focus on what we knew and when." The letter specifically requested that Neely be included in any discussions with examiners on the specific credits that were the focus of the targeted exam, which would include the Pulled Loans. However, in none of the discussions either prior to or subsequent to the May 29 Exam Submission did Neely tell the examiners the true facts concerning the Pulled Loans.

96. The May 29 Exam Submission also included the falsified internal bank report, "Modifications from SAD Regional Managers," which had been re-captioned from its original title of "NPL Changes" at the direction of Neely, at some point between May 13 and May 15, 2009, to convey to the Reserve Bank and the Alabama Banking Department that the nonaccrual decisions had been made by the SAD regional managers, despite the fact that it was not the case at least with regard to the Pulled Loans.

97. The May 29 Exam Submission also included inaccurate and incomplete written nonaccrual status narratives for each of the loans identified by the Reserve Bank as having been pulled from nonaccrual in March 2009 including, but not limited to, the Pulled Loans. The written narratives:

a) did not, as expressly requested, indicate who at each level of the chain (e.g. relationship manager, regional manager, SAD director, Head of Business

Services, and Chief Credit Officer) their concurrence/non-concurrence with the decision to pull the loans from nonaccrual in March 2009;

b) did not, as expressly requested, indicate "who authorized/instructed the credit be maintained in an accrual status" as directed by the Reserve Bank examiners. Rather, in the case of the five of the Pulled Loans: the $2.6 million Designers Choice loan, the $10.9 million First West Cutler loan, the $24.7 million Glove Factory loan, the $21.2 million Resorts Construction loan, and the $15.5 million Waters Edge loan, the written narratives falsely stated: "[d]ecision made on 3/17 as part of monthly meeting; Potential NPL's $2.5MM and Greater …," when the decisions on those credits had not been made at that meeting attended by the relevant SAD regional managers and certain of the credit officers, but had been made by Neely and Regions Bank's chief credit officer with the knowledge of its Head of SAD; or

c) did not accurately report the true condition of the loans in March 2009 that were the basis for the recommendations of the relevant SAD regional managers and certain of the credit officers that the loans be classified as nonaccrual.

98. On or about July 2, 2009, Regions Bank made another written submission to the Reserve Bank and the Alabama State Banking Department regarding "Requested Non-Accrual Status Narrative Documents," which was again signed by the Bank's Head of SAD and copied to both Neely and the Bank's chief credit officer. ("July 2 Exam Submission"). The July 2 Exam Submission included the same inaccurate and incomplete written nonaccrual status narratives that had accompanied Regions' May 29 Exam Submission. The cover letter to the July 2 Exam Submission responded to the Reserve Bank examiners' request that the "non accrual status narratives" submitted by

Regions be signed by "each level of the chain" and contain an indication of "their concurrence/non-concurrence with the nonaccrual/accrual decision (e.g., relationship manger, regional manager, SAD Director, Head of Business Services, and Chief Credit Officer)." In the response, the cover letter to the July 2 Exam Submission stated: "the requested documentation was never maintained by the Bank and we believe it would not be proper to create it now. Asking bank associates to concur/not concur with a decision made in March or April using today's knowledge is not representative of the events that occurred at the time of the actual decision." The cover letter did not truthfully report what Neely knew to be the case at that time-- that the relevant SAD regional managers and certain credit officers for the Pulled Loans did not concur with and were entirely unaware of the decision to pull those loans from nonaccrual in March 2009.

99. Neely and Regions Bank's chief credit officer and its Head of SAD failed to disclose to the bank examiners at any time during the course of the May 29 Targeted Exam, including either in the May 29 Exam Submission or in the July 2 Exam Submission:

a) that the relevant SAD regional managers and certain credit officers did not make or support and were entirely unaware of the decision to pull those loans from nonaccrual in the first quarter of 2009;

b) that Neely set a goal for total business services NPLs of $1.551 billion for the first quarter of 2009 and managed NPLs, including nonaccruals, to that goal;

c) that Neely and others had become aware of an approximately $200 million understatement had been discovered in the AQF on or about March 13, 2009, which resulted in actual total business services NPLs increasing to $1.74 billion,

which exceeded the $1.551 billion first quarter of 2009 goal for total business services NPLs by $190 million;

d) that Neely "fixed" the $190 million understatement in total business services NPLs, which was reported as $1.74 billion, in a matter of a few days between March 14 and March 18, 2009 in order to reach the $1.551 billion goal for total business services NPLs for the first quarter of 2009;

e) that Neely and Regions Bank's chief credit officer with the knowledge of its Head of SAD directed the pulling of the Pulled Loans totaling $91.1 million, which were reported as nonaccruals on the February 28 Report #6 report and the March 11 AQF for the first quarter of 2009, and was against the recommendation of and without the knowledge of the relevant SAD managers and certain of the credit officers responsible for the loans, and was contrary to the true condition of those loans at that time, which supported that full collection of principal and interest on the loans was doubtful in order to meet the $1.551 billion first quarter 2009 goal for business services NPLs;

f) that six of the seven Pulled Loans were not even "in-play" for accrual as late as March 16, 2009;

g) that as a result of the improper classification of the Pulled Loans, Regions Bank's regulatory reports for the first quarter of 2009 were inaccurate and incomplete; or

h) that Neely had directed that seven large-balance commercial real estate and other loans totaling $88.8 million that were held in SAD and scheduled for nonaccrual for the first quarter of 2009, at least as of the March 11 AQF, be moved to Held for Sale on March 30, 2009 in order to meet the $1.551 billion first quarter 2009 goal for total business services NPLs. They also failed to disclose that the

markdown on six of the seven loans was taken based on an unspecified bid dated March 20, 2009, which was contemporaneous with the March 18, 2009 directives to keep the Pulled Loans on accrual.

This information would have been relevant and material to the bank examiners and to the regulators supervision of Regions Bank.

100. On August 27, 2009, the bank regulators provided Regions Bank with their written report, bearing that same date, of the May 2009 targeted exam (the "August 27 Exam Report") of the Bank's nonaccrual process and the examiners' transaction testing review. The August 27 Exam report contained a number of findings as a result of the May 29 Targeted Exam including, but not limited to, the following:

a) examiners noted serious deficiencies in the monthly nonaccrual loan nomination process, most notably that there is insufficient documentation supporting decisions and rationale for removing loans from recommended nonaccrual;

b) examiners reviewed 14 loans totaling $146 million that were removed from nonaccrual nomination processing in the months of March and April 2009. Based on the review, which included loan discussions with Regions personnel, examiners concluded that the rationale for the withdrawal of a high percentage of loans (11 of 14 or 79 percent) from the nonaccrual nomination process was not justified, nor was the justification for doing so documented in most cases;

c) examiners noted that 9 of the loans that were sampled at this review were subsequently placed on nonaccrual shortly after the March or April decisions were made to withdraw them from the nonaccrual process;

d) examiners acknowledged that management placed a high volume of loans on nonaccrual in the first quarter of 2009 ($1.1 billion). However, as noted above,

examiners' review of management's decisions to continue accruing interest (removing loans from the nonaccrual nomination process) suggests that additional loans should have been placed on nonaccrual status in the quarter ending March 31, 2009, and, therefore, the level of nonaccruals reported could have been substantially higher;

e) "management needs to be extremely careful to avoid creating even a perception that decisions related to the accrual status of loans are being managed in a manner that could be viewed as compromising the accuracy of a bank's financial statements. A transparent process which ensures that financial statements and other public disclosures are supported by reliable certifications and attestations over such reporting is critical;" and

f) examiners determined that documentation detailing actual decisions to remove loans from the nomination process was typically not sufficient to determine whether the individual(s) that requested the withdrawal of nominated loans had sufficient authority to do so, and, in a number of cases, there was no documentation available to demonstrate who gave the instruction to remove the loans. The lack of documentation supporting the decision to remove the loans from the monthly nonaccrual processing is of particular concern given the size of the loans reviewed in the transaction testing sample.

101. The August 27 Exam Report specifically identified 11 loans that had been pulled from nonaccrual in March, including six of the seven Pulled Loans. The August 27 Exam Report concluded that ten of the 11 identified loans, including six of the Pulled Loans identified in the exam report, totaling $88.5 million, should have been placed on nonaccrual during the first quarter of 2009.

**The bank regulators May 28, 2009 enforcement action against Regions Bank**

102. On May 28, 2009, two weeks after the commencement of the May 2009 Targeted Exam, Regions Bank entered into an informal enforcement action with the bank regulators (the "May 28 Enforcement Action"). The May 28 Enforcement Action required the Bank to address matters relating to, among other things:

a) a governance review of its senior management and board of directors;

b) measures to strengthen its credit risk management practices including, but not limited to, measures to enhance the internal credit risk rating system;

c) measures to improve the accuracy of loan risk ratings including, but not limited to, measures to strengthen the documentation requirements necessary to adequately assess the current status and quality of loans; and

d) measures to ensure that the Bank maintains an adequate allowance for loan and lease losses.

103. The false statements made to and material information withheld from the bank examiners during the May 2009 Targeted Exam, which started two weeks before initiation of the May 28 Enforcement Action, would have been relevant and material to the bank regulators consideration of the appropriateness and degree of any additional or more expanded enforcement action involving Regions Bank at that time.

104. Neely's actions, as alleged in the Notice of Charges, would have been material to the bank regulators and would likely have had a material effect on the bank regulators supervision of Regions Bank at that time including, but not limited to, the May 28 Enforcement Action, the bank regulators' June 8, 2009 approval of the Bank's comprehensive capital plan submitted in connection with the Stress Test, and the August 27 Exam Report.

105. Had the bank regulators learned sooner of the actions alleged against Neely in the Notice of Charges, the bank regulators would likely have taken more stringent and immediate action against Neely, among others.

106. Neely's actions, as alleged in the Notice of Charges, have resulted in a financial gain or other benefit to Neely. At all material times relevant to the Notice of Charges, 25 percent of Regions Bank's Management Incentive Plan ("MIP") for Neely was weighted to incentivize Neely "to reduce NPAs ['nonperforming assets], during this economic cycle." Neely's total compensation for 2009 was $467,877.52. Neely's total compensation for 2010 was $2,003,357.85.

107. Neely's actions, as alleged in the Notice of Charges, have caused Regions Bank to suffer financial loss or other damage. The Bank has been forced to incur millions of dollars in professional fees and has been subject to a number of factual inquiries as well as civil litigation based in substantial part upon Neely's alleged misconduct.

## VIOLATIONS OF LAW AND REGULATION, UNSAFE AND UNSOUND PRACTICES AND BREACHES OF FIDUCIARY DUTY BY NEELY

### COUNT I: Unsafe and Unsound Banking Practices and Breaches of Fiduciary Duty

108. As set forth in Paragraph 3 above, Neely, as senior officer of Regions Bank and, therefore, had an obligation to ensure that the Bank's operations were conducted in a safe and sound manner and owed a fiduciary duty to the Bank.

109. As set forth in paragraphs 3 through 107, Neely engaged in unsafe and unsound practices and breaches of fiduciary duty by failing to maintain objective, rigorous and well documented controls and procedures for identifying loans for nonaccrual status with particular regard to certain large-balance commercial real estate and other loans held by Regions Bank for nonaccrual processing during the first quarter of 2009 that had previously been scheduled to go on nonaccrual that quarter; by manipulating the

internal reporting of certain large-balance commercial real estate loans and other loans held by the Bank for nonaccrual processing during the first quarter of 2009 so as to manage to an internal goal for total business services NPLs, which had the consequence of causing the Bank to file inaccurate and incomplete regulatory reports; and by providing intentionally misleading, inadequate and incomplete responses to examiner inquiries in connection with the May 2009 Targeted Exam.

**COUNT II: Violations of 18 U.S.C. § 1005**

110. At all relevant times, 18 U.S.C. § 1005 provided that, "[w]hoever makes any false entry in any book, report, or statement of [a Federal Reserve member] bank … with intent to injure or defraud … or to deceive … the Board of Governors of the Federal Reserve System … shall be fined not more than $1,000,000 or imprisoned not more than 30 years, or both . . . ."

111. As set forth in Paragraphs 3 through 107 above, Neely knowingly made false entries in the reports of Regions Bank in connection with the May 2009 Targeted Exam and generated false documents and accepted and made false documents a part of the Bank's books and records, with the intent to injure or defraud the Board of Governors, through its delegee the Reserve Bank, in connection with the May 2009 Targeted Exam of the Bank's nonaccrual process and Neely's actions near the end of the first quarter of 2009 that caused the pulling of certain large-balance commercial real estate and other loans held by the Bank from nonaccrual processing during the first quarter of 2009, which had previously been scheduled to go on nonaccrual.

**COUNT III: Violations of 18 U.S.C. § 1001**

112. At all relevant times, 18 U.S.C. § 1001 provided that, "[w]hoever, in any matter within the jurisdiction of the executive … branch of the Government of the United States,

knowingly and wilfully—falsifies, conceals, or covers up by any trick, scheme or device a material fact; makes any materially false, fictitious, or fraudulent statement or representations; or makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry ... shall be fined under this title [and/or] imprisoned not more than 5 years . . . ."

113. As set forth in Paragraphs 3 through 107 above, Neely knowingly and willfully falsified and concealed material facts and made materially false, fictitious and fraudulent statements and representations and made false documents containing materially false, fictitious and fraudulent statements with the intent to defraud and deceive the Federal Reserve, and any agent or examiner appointed to examine the affairs of Regions Bank, in connection with the May 2009 Targeted Exam of the Bank's nonaccrual process and Neely's actions near the end of the first quarter of 2009 that resulted in the pulling of certain large-balance commercial real estate and other loans from nonaccrual processing for the first quarter of 2009, which had previously been scheduled to go on nonaccrual that quarter.

**COUNT IV: Violations of 18 U.S.C. § 1517**

114. At all relevant times, 18 U.S.C. § 1517 provided that, "[w]hoever corruptly obstructs or attempts to obstruct any examination of a financial institution by an agency of the United States with jurisdiction to conduct an examination of such financial institution shall be fined under this title, imprisoned not more than 5 years, or both."

115. As set forth in Paragraphs 3 through 107 above, Neely corruptly obstructed or attempted to obstruct the May 2009 Targeted Exam of Regions Bank's nonaccrual process and the decision near the end of the first quarter of 2009 to pull certain large-balance commercial real estate and other loans held by the Bank from nonaccrual

processing for the first quarter of 2009, which had previously been scheduled to go on nonaccrual that quarter.

## REQUESTED RELIEF

### PROHIBITION ACTION

116. Notice is hereby given that a hearing will be held on _____, at the United States Courthouse, ----------, or any place designated by the presiding administrative law judge, for the purpose of taking evidence on the charges specified herein, in order to determine whether an appropriate order should be issued under section 8(e) of the FDI Act to prohibit the future participation of Neely in the affairs of any insured depository institution, holding company thereof, foreign bank, or any institution specified in section 8(e)(7)(A) of the FDI Act, 18 U.S.C. § 1818(e)(7)(A). As set forth above, by reason of Neely's violations of law, unsafe and unsound practices, and breaches of fiduciary duty, Neely received a financial gain or other benefit and Regions Bank has suffered or will probably suffer financial loss or other damage, or the interests of its depositors have been or could be prejudiced; and the violations of law, unsafe and unsound practices, and breaches of fiduciary duty involved personal dishonesty or continuing or willful disregard for the safety and soundness of the Bank on Neely's part.

### CIVIL MONEY PENALTY ASSESMENT

117. At all material times relevant to the Notice of Charges, the violations, practices and breaches set forth in Counts I-IV permit the assessment of civil money penalties under section 8(i)(2)(B) of the FDI Act, 12 U.S.C. § 1818(i)(2)(B), in a daily amount not to exceed $37,500, pursuant to 12 C.F.R. § 263.65(b)(2)(ii)).

118. Neely engaged in violations of law and regulation, recklessly engaged in unsafe and unsound practices and breached his fiduciary duties for a period beginning no later than March 17, 2009, and continuing at least until his employment was terminated in or about December 31, 2010, as set forth in Counts I-IV, a total of at least 655 days. Neely's violations of law and regulation, unsafe and unsound practices, and breaches of fiduciary duty, as set forth in Counts I-IV, constituted a pattern of misconduct and caused conferred him with a significant financial gain or other benefit and caused Regions Bank more than minimal financial loss or other damage.

119. After taking into account the size of Neely's financial resources, his good faith, the gravity of the violations, the history of previous violations, and such other matters as justice may require, the Board of Governors hereby assesses a civil money penalty of $2.4 million against Neely for his knowing and intentional violations of 18 U.S.C. §§ 1001, 1005, and 1517, and for Neely's willfully and recklessly engaging in unsafe and unsound practices, and breaching his fiduciary duty, as set forth in this Notice of Charges. Neely shall forfeit and pay the penalty as hereinafter provided.

120. The penalty set forth in this Notice is assessed by the Board of Governors pursuant to section 8(i) of the FDI Act, 12 U.S.C. § 1818(i) and subparts A and B of the Board of Governors' Rules of Practice for Hearings ("Rules of Practice"), 12 C.F.R. § 263.1 *et seq*.

121. Remittance of the penalty set forth herein shall be made within 60 days of the date of this Notice, in immediately available funds, payable to the order of the Secretary of the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, who shall make remittance of the same to the Treasury of the United States.

122. Notice is hereby given, pursuant to section 8(i)(2) of the FDI Act, 12 U.S.C. § 1818(i)(2) and section 263.23 of the Rules of Practice, 12 C.F.R. § 263.23, that Neely is afforded an opportunity for a formal hearing before the Board of Governors concerning this assessment. **Any request for such a hearing must be filed with the Office of Financial Institution Adjudication ("OFIA"), 3501 N. Fairfax Drive, Suite VS-D8113, Arlington, VA 22226-3500, and with the Secretary of the Board of Governors, Washington, D.C. 20551, within 20 days after the issuance and service of this Notice on Neely, with regard to the civil money penalty proceedings against Neely. Neely is encouraged to file any request for a hearing by electronic mail with the Office of Financial Institution Adjudication at ofia@fdic.gov.** A hearing, if requested, will be public, unless the Board of Governors shall determine that a public hearing would be contrary to the public interest, and in all other aspects will be conducted in compliance within the provisions of the FDI Act and the Rules of Practice before an administrative law judge to be designated pursuant to applicable law as in effect at the time of such hearing. The hearing described above may, in the discretion of the Board of Governors, be combined with any other hearing to be held on the matters set forth in this Notice.

**PROCEDURES GENERALLY**

123. The hearing referred to in Paragraph 116 hereof shall be held before an administrative law judge to be appointed from OFIA, pursuant to section 263.54 of the Rules of Practice, 12 C.F.R. § 263.54. The hearing shall be public, unless the Board of Governors determines that a public hearing would be contrary to the public interest, and in all other aspects shall be conducted in compliance with the provisions of the FDI Act and the Rules of Practice.

124. **Neely is hereby directed to file an answer to this Notice within 20 days of the service of this Notice, as provided by section 19 of the Rules of Practice, 12 C.F.R. § 263.19, with OFIA. Neely is encouraged to file any answer to this Notice by electronic mail with the Office of Financial Institution Adjudication at ofia@fdic.gov.** Pursuant to section 263.11(a) of the Rules of Practice, 12 C.F.R. § 263.11(a), any answer filed with OFIA shall also be served on the Secretary of the Board of Governors. As provided in section 263.19(c)(1) of the Rules of Practice, 12 C.F.R. § 263. 19(c)(1), the failure of Neely to file an answer required by this Notice within the time provided herein shall constitute a waiver of his right to appear and contest the allegations of this Notice in which case the presiding officer is authorized, upon proper motion, to find the facts to be as alleged in the Notice and to file with the Secretary of the Board of Governors a recommended decision containing such findings and appropriate conclusions. Any final order issued by the Board based upon a failure to answer is deemed to be an order issued by consent.

125. Neely may submit to the Secretary of the Board of Governors, within 20 days of the service of this Notice, a written statement detailing the reasons why the hearings described herein should not be public. The failure to submit such a statement within the aforesaid period shall constitute a waiver of any objection to a public hearing.

126. Authority is hereby delegated to the Secretary of the Board of Governors to designate the time and place and presiding officer for any hearing that may be conducted on this Notice and to take any and all actions that the presiding officer would be authorized to take under the Board's Rules of Practice for Hearings with respect to this Notice and any hearing to be conducted hereon, until such time as a presiding officer shall be designated.

By order of the Board of Governors of the Federal Reserve System, effective this 25th day of June, 2014.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: _____/s/_____
Robert deV. Frierson
Secretary of the Board