

DIVE BRIEF

## Celtic Bank ‘fueled’ Ponzi scheme, lawsuit alleges

A group of investors is accusing the Utah-based lender of conspiracy to defraud and racketeering in connection with what the Justice Department has labeled a \$200 million water vending machine scheme.

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Caitlin Mullen  
Senior Editor



Getty Images

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abetting fraud, conspiracy to defraud, negligence, breach of fiduciary duty and violating the Racketeer Influenced and Corrupt Organizations Act, among other charges. Also named in the complaint is former bank executive Scott Foster, who had been a senior vice president and head of Small Business Administration lending at Celtic.

- The complaint alleges that \$4.3 billion-asset Celtic Bank, Celtic Investment and Foster “knowing[ly] participat[ed] in the Ponzi scheme that took advantage of the SBA lending structure and taxpayer funds under 7(a) loan program and defrauded unsuspecting victims, including Plaintiffs, of millions of dollars.”

### **Dive Insight:**

The lender “abdicated its responsibility as a prudent lender and instead became an active participant in a ‘franchise opportunity’ Ponzi scheme,” a group of nine plaintiffs alleged.

Celtic Bank “fueled WaterStation’s operations by extending loans to innocent investors under the guise of” the SBA’s 7(a) program, “purportedly to finance the purchase of WaterStation franchises,” according to the lawsuit, first reported by [Fintech Business Weekly](#).

Celtic, one of the largest SBA lenders in the U.S., is a participant in the agency’s preferred lending program, which allows banks to

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From 2020 to 2022, the plaintiffs were introduced to Celtic by WaterStation, “who assured each Plaintiff that Celtic Bank would arrange SBA financing for the franchise opportunity under the SBA’s 7(a) loan program,” the lawsuit alleged.

Celtic was one of the banks under investigation by the SBA in late 2022, stemming from a House report on Paycheck Protection Program fraud.

WaterStation filed for bankruptcy last year. The Securities and Exchange Commission said this month the company’s water vending machines didn’t exist or had already been sold to other investors, and WaterStation founder and owner Ryan Wear has been charged with operating Ponzi-like schemes that raised roughly \$275 million from about 250 investors.

The U.S. attorney’s office for the Southern District of New York has also charged Wear with securities fraud and wire fraud.

From June 2020 to October 2022, Celtic provided some \$17 million in financing for the plaintiffs to purchase WaterStation franchises through the SBA 7(a) loan program, the complaint said. The plaintiffs met with Foster, who at times encouraged them to purchase additional water vending machines and increase their capital in the franchise opportunity, the lawsuit alleged.

Additionally, “Celtic Bank enabled its senior officer — Scott Foster — to leverage his personal investments in WaterStation by

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As Foster grew concerned about WaterStation's ability to meet payment obligations, he demanded repayment of his entire investment, the plaintiffs said – while continuing to encourage the plaintiffs to borrow more, “thereby funding his own ‘returns’ at the expense of others,” the complaint alleges.

Foster was dismissed by the bank in January, according to the complaint.

And “even as the scheme crumbled, Celtic Bank accrued massive profits through administration fees, interest payments, outstanding debts, and collateralized assets (among other financial gains),” the plaintiffs alleged.

Celtic also failed to verify the existence of loan collateral and disregarded SBA regulations and guidelines by deceiving the plaintiffs into obtaining the SBA loans even though they weren't eligible for them, the lawsuit alleged. Celtic also didn't disclose conflicts of interest related to Foster, the plaintiffs said.

The plaintiffs, who were franchisees of WaterStation, “lost millions of dollars in direct payments, incurring millions of dollars in debt owed to Celtic Bank, and facing foreclosures of their residences and/or real property by Celtic Bank,” the complaint reads.

Celtic Bank didn't immediately respond to a request for comment. Scott Foster couldn't immediately be reached for comment.

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