



Office of Inspector General Small Business Administration

June 1999 Update

Business Loans

SBA/OIG Special Agent Presented Award for Outstanding Assistance to U.S. Attorney's Office. During her office's annual law enforcement awards ceremony on May 21, 1999, Wilma Lewis, U.S. Attorney for the District of Columbia, awarded a certificate of appreciation for meritorious service to Jeanine Hepler, SBA/OIG Special Agent in Charge of the Washington Field Office. The assistance cited was in the investigation of the case described in the article immediately below. Inspector General Phyllis K. Fong attended the Capitol Hill ceremony.

President of Washington, D.C., Waste Paper Recycling Company Sentenced for Making False Statements and Perjury. The president of a now-defunct waste-paper recycling company in Washington, D.C., was sentenced on June 3, 1999, to serve 37 months in prison and 5 years of supervised release. She was also ordered to pay restitution of \$427,865 to SBA and \$114,916 to the participating lender bank. She was previously convicted on one count each of **making false statements in a loan application to a Federally insured bank, making false statements to SBA, and perjury.** The waste paper recycling company had received a \$296,014 SBA-guaranteed loan to purchase equipment to convert waste paper into fuel pellets, and approval of the loan was

based on her projection of the company's income. The trial jury found that the president of the company made false statements in her loan application when she provided an altered document to support her income projections, failed to inform the bank and SBA that her contract to obtain the required waste paper had been canceled prior to the loan closing, and failed to list on her Personal Financial Statement that she was a personal guarantor on a loan from another lender. In response to the bank's request for documents to support her income projections, the jury found she had directed her secretary to alter a letter to reflect that the company would receive approximately 100 tons of waste paper a day instead of the 16 tons she knew to be the true amount. This letter was then submitted to the bank and SBA to support her inflated projections. The jury also found that she committed perjury by lying to the U.S. Bankruptcy Court about the alteration of this letter. The company defaulted on the loan without making a single payment. This investigation, conducted jointly with the Federal Bureau of Investigation (FBI), was initiated based on a referral from the participating lender bank. (*Updated from the September, 1998 Update.*)

California Loan Broker Pleads Guilty to Making False Statement to Federally Insured Lender. The principal of a brokerage firm in San Jose, California, pled guilty on June 7, 1999, to two counts of **making false statements to a feder-**

ally insured lender to obtain SBA-guaranteed loans. In return, the other 16 felony counts on which he had been indicted were dismissed. The joint investigation conducted by the OIG and the FBI was initiated based on information provided by SBA's San Francisco District Office. In his plea agreement, he acknowledged that in the course of securing financing for two clients to purchase convenience stores, he assisted them by preparing and submitting fraudulent applications for SBA-guaranteed loans to a bank. The personal financial statements provided failed to disclose loans that the loan broker was making to his clients to facilitate their store purchases. The indictment had charged the loan broker with numerous instances of submitting false statements relative to the applicants' eligibility and/or source of down payments. The indictment also charged that he frequently used "straw" applicants to conceal the true identity of purchasers who would not have been eligible for SBA-guaranteed loans. Cited in the indictment were circular financing schemes, involving a total of 10 loans made by a Sacramento bank between 1989 and 1995 and 1 loan application submitted to another California bank in 1997. The loans totaled nearly \$6 million. To date, SBA has paid out over \$1.4 million to repurchase defaulted loans made to the loan broker's clients. *(Updated from the December, 1997 Update.)*

President of Washington Credit Exchange Pleads Guilty to Making False Statements on Loan Application. The president of a credit exchange in Kennewick, Washington, pled guilty on May 14, 1999, to one count of **making false statements to SBA**. In return, a **bank fraud** count on which she had also been indicted was dismissed. The charges pertained to fraudulent statements she made to SBA and to a participating lender to obtain a \$56,000 SBA-guaranteed LowDoc loan in January 1996. The investigation found that she failed to disclose that the credit exchange owed more than \$12,100 in Federal payroll taxes at the time she applied for the loan. In addition,

when the loan funds were disbursed, she certified that all the taxes were current. The investigation found that had the unpaid taxes been disclosed, the loan would not have been made. SBA incurred a loss of \$35,285 and the bank incurred a loss of \$19,319. This investigation was based on a referral from SBA's Spokane District Office. *(Updated from the March, 1999 Update.)*

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Small Business Investment Companies

New York Small Business Investment Company Official Pleads Guilty to Making Material False Statements and Bank Fraud. The president of a small business investment company (SBIC) in New York, New York, pled guilty on June 2, 1999, to one count each of **bank fraud** and **making material false statements**. In return, the Government agreed to dismiss the charge of **misapplication of SBIC funds** on which he was previously indicted. The indictment had charged that, from March 1996 through February 1997, he fraudulently obtained over \$750,000 in loans from the SBIC, as well as over \$250,000 in salary advances. His actions caused the SBIC to fail and forced SBA to begin liquidating the SBIC in 1997. SBA expects to lose \$1,400,000 as a result of this failure. *(Updated from the January, 1999 Update.)*

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Disaster Assistance

Indiana Resident Sentenced for Making False Statement. A resident of Indianapolis, Indiana, pled guilty on June 11, 1999, to one count of **making a material false statement** to SBA, and was sentenced to serve 7 months in prison, 7 months of home detention, and 3 years of supervised release. She was also ordered to pay SBA \$23,815 in restitution.

The woman had falsely claimed that her personal belongings were destroyed in an apartment complex she did not live at during the 1994 Northridge, California, earthquake. Special agents from the OIGs of SBA and the Federal Emergency Management Agency (FEMA) and Deputy U.S. Marshals had located and arrested her in December 1998 based on a complaint alleging disaster fraud against both SBA and FEMA. The SBA/OIG initiated its investigation based on a referral from SBA's Disaster Assistance Area 4 Office. (*Updated from the March, 1999 Update.*)

Agency Management and Financial Activities

OIG Annual Training Conference. The annual training conference for OIG professional and support staff was held in June, in San Antonio, Texas. Among the topics presented to the entire staff were Government Performance Results Act (GPRA) strategic and annual planning, government ethics, and conflict resolution. The remainder of the conference focused on providing technical training on audit, investigation, inspection, and administrative topics.

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Editor's Notes:

The following identifies the use of adjectives in these Updates to describe tax returns fraudulently submitted in support of loan applications:

Fictitious tax returns: The applicant submits "copies" of tax returns never filed with the IRS.

Altered tax returns: The applicant submits altered copies of tax returns actually submitted to the IRS.

Bogus tax returns: The applicant submits tax returns containing false information to both the IRS and SBA.

Most audit and inspection reports can be found on the

Internet at:

WWW.SBAONLINE.SBA.GOV/IG/REPORTS.HTM
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The Activity Update is produced by the SBA/OIG, Phyllis K. Fong, Inspector General.

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