



## Office of Inspector General Small Business Administration

January 1997 Update

### *Business Loans*

California Loan Broker and Long-Time Subject of OIG Investigation Sentenced to Prison. A former loan broker from LaCanada, California, was sentenced on January 22, 1997, to serve 18 months in prison and 3 years of supervised release. He was also ordered to pay restitution in the amount of \$2,928,211, with \$2,499,358 specifically designated for repayment to SBA. He had previously pled guilty to five felony counts of **making false statements in a loan application to a Federally-insured lender** in connection with his loan brokering scheme to obtain more than \$15 million of SBA-guaranteed business loans and SBA disaster loans following the April 1992 Los Angeles civil unrest. In addition, he pled guilty to a **criminal forfeiture** count allowing the Government to recapture the illegal proceeds of his crimes, although at sentencing this count was dismissed in the interest of justice and in return for the defendant's cooperation.

The investigation, based on information provided by a participating lender, disclosed that the subject brokered over two dozen fraudulent loans between 1987 and 1992, primarily for Korean-American clients. His scheme involved the submission of false financial information

to the banks and SBA to induce the banks and SBA to grant and guarantee the loans, respectively. That false information included numerous bogus tax returns, financial statements, invoices, and cashier checks evidencing cash infusions into the businesses. When the banks and SBA approved the loan applications, he would launder part of the proceeds through his fictitious equipment business.

To date, nine individual borrowers related to this investigation have pled guilty to submitting false financial documentation in support of their applications for an SBA-guaranteed loan. Also charged were a bank official, a tax preparer, and another businessman who conspired to facilitate a loan. This investigation was conducted jointly with the United States Secret Service.

OIG's Ongoing Loan Broker Investigation Yields More Results. Three more recent sentencing results resulted from the OIG's investigation of the southern California loan broker referenced in the preceding article:

● On January 16, 1997, the owner of a sporting goods store in Los Angeles, California, was sentenced to 1 year home detention, 3 years supervised release, \$50,000 restitution, and

600 hours of community service. The businesswoman previously pled guilty to **making a false statement to a Federally-insured financial institution** in support of her application for a \$1,000,000 SBA-guaranteed business loan. She admitted submitting altered tax returns, each of which significantly overstated her income.

② The owner of a grocery and liquor store in Los Angeles, California, was sentenced on December 18, 1996, to 2 years' probation, 200 of hours community service, a \$231,000 restitution, and a \$5,000 fine. The businessman previously pled guilty to **making a false statement** to SBA in applying for his \$231,000 disaster business loan. The investigation initially discovered that an altered tax return had been submitted to obtain an earlier \$161,119 SBA-guaranteed loan that enabled him to purchase the market; it also established that he had also submitted altered tax returns to obtain a disaster loan for the repair of damage stemming from the 1992 civil unrest. Each of the returns significantly overstated his income.

③ On November 25, 1996, a former personal banking officer at a bank in Paramount, California, was sentenced to 3 years' probation, a \$5,000 fine, and 200 hours of community service. The judge also prohibited her from ever again working for a financial

institution. The bank officer had previously pled guilty to **making a false statement** to SBA. In an attempt to help her sister, who had applied for a \$2.1 million Section 504 loan, she prepared a false deposit verification form for submission to SBA and a participating lender bank. The false statement was detected during the investigation of the loan packager who had submitted the loan application. As a result, SBA canceled the loan, producing a \$750,000 cost avoidance (SBA's guaranteed share), and the bank officer was terminated from her position.

California Clothing Manufacturer Sentenced for Making False Statements.

The owner of a clothing manufacturer in La Canada, California, was sentenced on January 6, 1997, to 1 year's imprisonment, 5 years' supervised release, and restitution of \$875,827 to SBA for **making false statements in a loan application to a Federally-insured bank**. He had obtained a \$1 million SBA-guaranteed loan, supported by an application that contained altered copies of income tax returns for 1987-89, each of which significantly overstated the net profit from his business. This is the latest result of the OIG's investigation of a California loan broker who packaged more than two dozen fraudulent loans totaling more than \$15 million. The investigation was opened after the participating lender and SBA's Los Angeles District Office referred the matter to the OIG; the U.S. Secret Service was asked by the OIG to participate in the investigation.

California Jewelry Store Owner Convicted of Making False Statements.

The owner of a retail jewelry store in San Luis Obispo, California, was convicted on January 22, 1997, of **making false statements to a Federally-insured financial institution**. A lengthy investigation, based on information provided by SBA's Fresno District Office and conducted jointly with the FBI, revealed that the man submitted fraudulent 1986 and 1987 individual tax returns in support of an application for a \$450,000 SBA-guaranteed loan approved in 1988. He subsequently provided false tax returns, both individual and corporate, for 1988-90 and was successful in obtaining another SBA-guaranteed loan for \$100,000. Both loans ultimately went into default and were liquidated. Following liquidation efforts, a total of \$336,895 was charged off by the lender.

California Talk Show Host Indicted for Making False Statement.

A Los Angeles, California, businessman and radio talk show host was indicted on January 22, 1997, on one count of **making a false statement in connection with a loan application to a Federally-insured financial institution**. The investigation disclosed that the man sold land and a building to the owner of a sporting goods store in Los Angeles and assisted her with the purchase by signing an escrow modification statement which falsely claimed that she had paid him \$160,000 outside of escrow. The \$160,000 payment was submitted as evidence to both the bank and SBA that she had made the necessary capital injection into the project (purchasing the land and building in which her company was located) to qualify for an SBA-guaranteed loan. The woman previously

pled guilty to one count of **making a false statement on a loan application to a Federally-insured financial institution**. In this incident, she obtained a \$1 million SBA-guaranteed business loan and a companion \$500,000 commercial business loan from the bank to purchase the property. This loan was identified as part of an ongoing series of joint OIG/ U.S. Secret Service investigations examining applications submitted to SBA lenders by unscrupulous loan brokers and their clients. The loan broker in this case was the same individual identified in the first article in this Update.

Montana Clothing Retailer Pleads Guilty to Making False Statements.

On December 16, 1996, a partner in a clothing retailer in Whitefish, Montana, pled guilty to one count of **making false statements** to SBA. This businessman submitted financial statements and other documents purporting to give a true picture of the partnership's financial situation in an effort to persuade SBA and its participating lender bank to accept a \$27,500 offer in compromise of its liability for two SBA loans which defaulted in 1993; however, the OIG's joint investigation with the FBI found that the man had failed to disclose over \$165,000 in assets, including real estate and corporate stock, in the offer-in-compromise package. This fraudulent offer was intended to persuade SBA to settle for an unreasonably small amount. In 1993, he (under a corporate name) also received \$205,000 in SBA-guaranteed loans from a participating lender in Idaho based on substantially different financial statements. The OIG initiated its investigation based on referrals from SBA's Helena and Boise

District Offices.

Illinois Manufacturing Company Pleads Guilty to Making False Statement.

A manufacturer of grain wagons and other farm equipment in Arthur, Illinois, pled guilty on December 27, 1996, to one count of **making a false statement** to obtain a \$1,000,000 SBA-guaranteed loan. In a loan application document submitted in 1993, the company stated that it had not discharged any hazardous waste onto its property (a question regarding compliance with environmental laws is included in the application), when it knew that hazardous waste had indeed been unlawfully buried on its property. The corporation also pled guilty to one count of **unlawful disposal of hazardous solvents and paint wastes**. This plea agreement was a result of the OIG's joint investigation with the Environmental Protection Agency's Office of Criminal Enforcement.

Ohio Automotive Repair Company Owner Charged With Conversion of Government Property.

The owner of a limousine repair company in South Euclid, Ohio, was charged in a criminal information on January 10, 1997, with one felony count of **conversion of Government property** in connection with a \$50,000 SBA-guaranteed LowDoc business loan. The OIG investigation found that the owner sold assets of the business which he had pledged as collateral for the SBA loan guarantee. Moreover, he had converted \$8,170 of the proceeds to his own use. The OIG initiated the investigation in response to a referral from SBA's Cleveland District Office.

California Gas Station Owner Sentenced for Forgery and Possession of Stolen

Mail. The owner of a gas station in San Diego, California, was sentenced on January 13, 1997, to 2 years' imprisonment and a \$10,000 fine. He had previously been convicted of **forging U.S. Treasury checks** and **possession of stolen mail**. The U.S. Secret Service asked the OIG to join its investigation, which had identified \$340,000 in stolen U.S. Treasury checks deposited into the man's business bank account. The OIG's portion of the investigation confirmed that he had also submitted altered tax returns to a participating lender bank to obtain an \$80,000 SBA-guaranteed loan for business improvements. As part of his application, the owner provided "copies" of 3 years' corporate income tax returns which greatly overstated the business' taxable income. In the returns filed with the IRS, the business had reported losses for the same 3-year period.

California Tax Preparer Charged With Making False Statements.

A tax preparer in Los Angeles, California, was charged in a criminal information on January 21, 1997, with **aiding and abetting** and **making false statements in a loan application to a Federally-insured bank**. He is charged with preparing false income tax returns submitted in support of a \$265,000 loan application submitted by a Pomona, California, restaurant. By overstating the business' income, the tax preparer created the illusion that the applicant had adequate repayment ability and was creditworthy. The businessman had previously pled guilty to related charges in this case and the false tax returns were identified during the investigation of loans submitted by unscrupulous loan brokers. The ensuing OIG/U.S. Secret Service

investigation revealed several more individuals for whom the tax preparer had prepared false income tax returns.

California Automobile Repair Business Owner Charged With Making False Statements. The owner of an automobile repair business located in North Hollywood, California, was charged in a criminal information on January 21, 1997, with one count of **making false statements in a loan application to a Federally-insured bank.** The investigation revealed that the man submitted false individual and corporate income tax returns for 1987-89, all of which significantly overstated his income to qualify for two SBA-guaranteed loans totaling \$656,000 from a participating lender bank. In addition, the investigation expanded into his acquisition of two additional fraudulently-obtained loans valued at \$2,408,600. After the collateral supporting the loans, totaling \$3,064,600, was sold, the lenders suffered losses of \$1,062,068. Information regarding this borrower was established by OIG/U.S. Secret Service agents looking into disaster loan applications prepared by the two southern California brothers acting as loan brokers. The repair business owner and his brother were the only businessmen who had obtained Section 7(a) loans.

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### ***Disaster Assistance***

California Liquor Store Owner Charged With Making False Statements. The owner of a liquor store in Los Angeles, California, was charged in a criminal information on January 21, 1997, with one count of **making false statements**

**in a loan application to a Federally - insured bank** and one count of **making a false statement to SBA**. In March 1991, the man submitted fraudulent 1987-90 income tax returns to a participating lender bank to obtain a \$631,500 SBA-guaranteed business loan. In January 1993, he also submitted false tax returns for 1989-91 to SBA in an effort to obtain disaster assistance following the April 1992 Los Angeles civil unrest. He ultimately obtained both a \$71,800 physical damage business loan and a \$59,200 economic injury loan. In addition, the investigation expanded into his acquisition of other additional fraudulently-obtained bank loans totaling \$1,193,750. The store owners actions resulted in losses to the SBA and other lenders of \$1,097,388 after he filed for bankruptcy and the existing collateral was sold. The OIG's joint investigation with the U.S. Secret Service. The investigation has focused on the submission of false documents as part of loan packages prepared by two southern California brothers acting as loan brokers.

California Tax Preparer Charged With Making a False Statement. A tax preparer in Glendale, California, was charged in a criminal information on January 9, 1997, with **making a false statement** and **aiding and abetting** the preparation of altered income tax returns which were submitted to SBA in support of a \$450,000 economic injury disaster loan application. It is alleged that the man significantly overstated a loan applicant's income on both corporate and personal tax returns. The OIG's joint investigation with the U.S. Secret Service revealed that the tax preparer altered income tax returns for other SBA disaster loan applicants as well, two of whom

previously pled guilty to related criminal charges. This is the first tax preparer charged in the continuing investigation of disaster loan applications packaged by two southern California brothers acting as loan packagers.

California Food Market Owner Charged With Filing a False Claim. The owner of a food market in Reseda, California, was charged in a criminal information on January 8, 1997, with one count of **filing a false claim** with SBA. The OIG investigation, opened in response to a referral from the Disaster Assistance Area 4 Office, revealed that the man falsely claimed that his business suffered \$180,000 in physical damage and \$260,000 in economic injury following the Northridge earthquake. In fact, the market closed permanently nearly 4 months before the earthquake, and all the invoices submitted by the applicant to support disbursement of loan proceeds were bogus.

California Homeowner Charged With Making a False Statement. A Northridge, California, homeowner was charged on January 10, 1997, with one count of **making a false statement** to SBA. He was approved for a \$123,100 disaster home loan following the 1994 earthquake. After having received \$38,900 of disaster loan proceeds, the man submitted a series of letters, one supported by a signed financial statement, requesting (unsuccessfully) that SBA reduce his monthly payments because his financial condition had worsened due to a new \$20,000 installment debt incurred for the purchase of a 1994 Acura automobile. The OIG's investigation revealed, however, that the applicant had paid cash for the vehicle.

The man learned of the investigation in September 1996 and immediately repaid the \$39,000 balance of his SBA loan. The OIG initiated its investigation at the request of the U.S. Attorney's Office for the Central District of California.

California Real Estate Development Company Owner Pleads Guilty to Filing a False Claim. A former co-owner of a real estate development company in Monterey Park, California, pled guilty on November 12, 1996, to one count of **filing a false claim** with SBA. The OIG's investigation disclosed that the man participated in the submission of a fraudulent application for a \$300,000 economic injury disaster loan following the 1992 Los Angeles civil unrest. Included in the application package were copies of fictitious individual income tax returns for the company's co-owner and a copy of a bogus corporate income tax return. The applicant knew that all of these returns significantly overstated the parties' income over a 3-year period and that no returns had been filed with the IRS. Relying on these false documents, SBA approved and disbursed a \$109,300 loan which ultimately went into default without a single payment having been made. The investigation was based on information provided by the OIG's Auditing Division.

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### *Surety Guarantees*

Audit Reveals Incomplete Forms Used to Support Surety Guarantees. A recently released audit of a surety company in Baltimore, Maryland, revealed that complete **information on surety applications was not being provided to SBA on Form 994.** The surety

company said that the form was not being filled out completely because of improper instructions issued by SBA in March 1996. Without the completed form, SBA lacks important information on start dates, subcontractors, previous SBA bonds, SBA debts, type of business, affiliates, and gross receipts. As a result of the audit, the Associate Administrator for Surety Guarantees issued clarifying instructions on January 27, 1997, that Form 994 is to be completed in its entirety on initial surety bond guarantees for a contractor.

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### *Agency Management and Financial Activities*

SBA Employee Pleads Guilty to Credit Card Fraud. On January 16, 1997, A former Minority Enterprise Development technician in SBA's New York District Office pled guilty to a criminal information charging her with **using unauthorize d access devices** (credit cards) in an offense affecting interstate commerce. The investigation was based on a complaint by an SBA employee that her name and Social Security number were being illegally used by someone to open charge accounts and purchase merchandise. The investigation, conducted jointly with the Social Security Administration's OIG, disclosed that, from an undetermined date in 1994 until January 1996, the SBA employee used her position to obtain the social security numbers of at least three current or former co-workers. She used their names and social security numbers to open numerous fraudulent charge accounts and purchased merchandise

valued at over \$3,000. Based upon a criminal complaint by the investigating SBA/OIG agent, the technician was arrested in SBA's New York District Office on July 18, 1996. She resigned her position with the SBA in August.

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