



# News Release

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## **SBA Protects Taxpayers In Loan Fraud Case**

**WASHINGTON, DC** — The U.S. Small Business Administration today set terms and conditions for its relationship with Business Loan Center LLC, or BLX, that will increase oversight of the company's small business lending operations, require independent reviews of the loans it originates and protect taxpayers from losses due to fraud.

“SBA is the federal financial regulator for BLX, and this agreement puts BLX on notice that we will ensure that American taxpayers are not injured by the use of federal guaranties on loans that are fraudulent,” said SBA Administrator Steven Preston. “This agreement with BLX will serve the interests of taxpayers and small businesses by increasing oversight, tightening reviews and examinations and covering any losses caused by fraudulent loans.”

The increased oversight stems from loan fraud charges filed by the U.S. Department of Justice against 19 people in connection with loans originated by BLX, some of which were guaranteed by the SBA. Among those charged was a former senior employee of the BLX office in Troy, Michigan. The charges followed an investigation by the SBA's Office of Inspector General in conjunction with the Department of Justice and Secret Service, which uncovered what appears to be a sophisticated scam to defraud taxpayers.

The terms set by SBA with respect to BLX include:

- SBA will increase oversight of the company's SBA-related lending operations, including expanding the scope of safety and soundness examinations and increasing their frequency.
- BLX will buy back certain loans that default after having been sold into the secondary market, and present those loans to the SBA for examination. Only loans free of fraud and other deficiencies will have their guaranties honored by the SBA; those that involve fraud or other deficiencies will be denied.
- Loans originated by BLX that are guaranteed by SBA will undergo an independent review at BLX's expense before they can be sold in the secondary market. Similar reviews of loans at other stages of the lending process also will be required.
- BLX will immediately pay for known losses on loans associated with the U.S. Attorney's investigation, about \$10 million, as well as future losses that are identified.

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