



Office of Inspector General Small Business Administration

August 1997 Update

Business Loans

New York Bank President Sentenced for Conspiracy, Fraud, and Bribery. The former president and board chairman of a now-defunct SBA participating lender bank headquartered in Watertown, New York, was sentenced on July 28, 1997, to 30 months imprisonment after being convicted of **conspiracy, bank fraud, and bank bribery**. The bank president had agreed to refer the bank's legal work to the law firm of a co-conspirator in return for one-sixth of the legal fees collected. The bank president received more than \$332,000 from the scheme. In furtherance of the conspiracy, he caused the bank to make loans totaling \$1,879,500 to the attorney and his associates, allowed other individuals to borrow money from

the bank for transfer to the attorney, and permitted the attorney to represent both parties in connection with most of these loans. As a consequence of these arrangements, the loans, several of which were guaranteed by SBA, were not properly secured and not repaid. Having lost \$13 million on bad loans, the bank, which had been a major community lender to small business, was declared insolvent and was seized in 1993 by the Office of the Comptroller of the Currency (OCC). The OIG investigation was conducted jointly with the OCC, the Resolution Trust Corporation, and the FBI; it was based on a referral from SBA's Syracuse District Office.

Wisconsin Businesswoman Indicted for Making False Statement. A business consultant in Menomonie, Wisconsin, was indicted on August

12, 1997, on one count of **making a material false statement** to SBA to obtain a \$25,000 SBA-guaranteed business loan. The indictment charges that the woman knowingly failed to disclose a recent criminal history and provided a false Social Security number on SBA Form 912, Statement of Personal History, in a loan application for her consulting firm. The OIG's investigation found that she had been arrested on a local charge for forging company checks the day before she applied for the SBA-guaranteed loan. She was convicted on that charge after obtaining the loan. The OIG initiated the investigation in response to a request from the U.S. Attorney's Office for the Eastern District of Wisconsin.

Florida Auto Repair Shop Owner Pleads Guilty to Using Falsified Tax Documents. The president of a Longwood, Florida, auto repair shop pled guilty on July 8, 1997, to one count of **using false documents**. He had submitted tax returns that he knew to be altered in an effort to obtain a \$450,000 SBA-guaranteed loan. The loan application was declined based on the overwhelming differences between the tax returns submitted to SBA and those submitted to the IRS. This investigation was based on a referral from SBA's Jacksonville District Office.

New York Bank Officer Sentenced for Witness Tampering. A former administrator and assistant to the general manager at a New York City participating lender bank was sentenced on July 24, 1997, to 2

years probation and a \$5,000 fine. The woman had pled guilty to **witness tampering** in connection with a joint OIG and FBI investigation into kickbacks and fraud involving the bank's small business loan division. According to her plea, she attempted to prevent a witness in a grand jury proceeding from testifying. She also asked the witness to make false statements and conceal information from the grand jury concerning the nature of a \$5,000 payment he made to another bank officer who headed the bank's small business loan division.

That bank officer was ultimately convicted of receiving kickbacks from SBA borrowers, and the bank paid a \$1,260,033 civil settlement and released SBA from guaranties totaling more than \$4.4 million.

California Tax Preparer Sentenced for Making a False Statement in a Loan Application. A tax preparer in Los Angeles, California, was sentenced on June 5, 1997, to 3 years probation, 100 hours community service, and a \$10,000 fine. He had pled guilty to aiding and abetting the **making of false statements in a loan application to a Federally-insured bank**. He prepared altered copies of income tax returns submitted in support of a \$265,000 loan application by the owner of a restaurant in Pomona, California. By overstating the restaurateur's business income, the tax preparer created the illusion that the applicant had adequate repayment ability and was creditworthy. The altered tax returns were discovered during the OIG's extensive joint investigation with the

U.S. Secret Service into loans submitted by unscrupulous loan brokers. The ensuing investigation into the restaurant owner's activities revealed several other individuals for whom the tax preparer created altered income tax returns.

California Talk Show Host Sentenced for Lying on Loan Application.

A Los Angeles, California, businessman and former radio talk show host was sentenced on July 14, 1997, to 4 months home detention, 3 years probation, 300 hours community service, and \$100,000 restitution to SBA. He had pled guilty to one count of **making a false statement in a loan application to a Federally-insured financial institution.** The investigation disclosed that the businessman sold land and a building to the owner of a sporting goods store and recreational sports center in Los Angeles and also assisted her with the purchase, i.e., he signed an escrow modification statement which falsely stated that she had paid him \$160,000 outside of escrow. The \$160,000 "payment" was submitted as evidence to both the participating lender bank and SBA that the purchaser had made the necessary capital injection into her project (purchasing the land and building in which her company was located) to qualify for an SBA-guaranteed loan. The woman was previously sentenced for fraudulently obtaining a \$1 million SBA-guaranteed business loan to purchase the businessman's property. This case represents a successful conclusion of one of an ongoing series of investigations,

conducted jointly with the U.S. Secret Service, examining applications submitted to SBA lenders by unscrupulous loan brokers and their clients.

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Disaster Assistance

California Store Owner Pleads Guilty to Making False Statement.

The former owner of a television repair store in Los Angeles, California, pled guilty on July 28, 1997, to one count of **making false statements** to SBA. The SBA/OIG initiated the investigation based on a referral from the Liquidation Division of SBA's Los Angeles District Office and continued it jointly with the Social Security Administration's OIG and the U.S. Secret Service. The investigation revealed that the man had filed for bankruptcy under several Social Security numbers and concealed the bankruptcy filings from SBA to obtain two disaster loans for his business damaged during the 1992 civil unrest. He also submitted altered copies of income tax returns with his applications for the \$26,400 physical damage loan and the \$13,300 economic injury loan.

California Disaster Home Loan Applicant Pleads Guilty to Making False Statements to Government Agencies.

A Mission Hills, California, disaster home loan applicant pled guilty on July 28, 1997, to one count each of **making a false statement to SBA** and **making a false statement to the**

Federal Emergency Management Agency (FEMA). The SBA/OIG's joint investigation with the FEMA/OIG, opened in response to a referral from SBA's Santa Ana Servicing Center, revealed that he had submitted three disaster home loan applications-- two under fictitious names and all three containing false claims for damages from the 1994 Northridge earthquake. A total of \$27,000 was disbursed in connection with the first two loans, and both loans defaulted without a single payment having been made. The third loan, for \$113,000, was approved but not disbursed because SBA's Disaster Assistance Area 4 Office detected inconsistencies in the documentation and referred it to the SBA/OIG. The applicant was arrested on June 30, 1997, based on an outstanding warrant issued in connection with a previous unrelated FBI case involving bank fraud.

California Disaster Loan Applicant Indicted for Making False Statements. The former owner of a fashion outlet located in Los Angeles, California, was indicted on August 5, 1997, on one count of **making a false statement** to SBA. The OIG initiated the investigation based on a referral from SBA's Santa Ana Servicing and Liquidation Center and continued it jointly with the U.S. Secret Service. Following the 1992 civil unrest, the businessman had obtained two SBA disaster loans for his establishment. The investigation revealed that, with his applications for a \$87,300 physical damage loan and a \$28,100 economic injury loan, the applicant

had submitted copies of tax returns altered to overstate his income. The investigation determined that the disaster loans would not have been made had his true financial condition been known. His alleged fraudulent activity resulted in a \$77,000 loss to SBA.

Texas Businessman Pleads Guilty to Three Counts of Forgery. The owner of a Clute, Texas, computer services company pled guilty on August 8, 1997, to three counts of **forging endorsements on U.S. Treasury checks** which represented a portion of the proceeds of a \$183,400 economic injury disaster loan his business obtained from SBA. The man fraudulently negotiated three Treasury checks, totaling approximately \$27,000, each jointly-payable to the applicant's business and to another business whose endorsement was falsely made. His indictment resulted from an SBA/OIG investigation based on a referral from SBA's Houston District Office.

California Disaster Loan Recipient Sentenced for Making a False Statement. A Northridge, California, resident was sentenced on May 27, 1997, to 2 years probation, 100 hours community service, and a \$5,000 fine for **making a false statement** to SBA. He had been approved for a \$123,100 disaster home loan following the 1994 earthquake. After receiving \$38,900 in disaster loan proceeds, the man submitted a series of letters, one supported by a signed financial statement, requesting that SBA

reduce his monthly payments because his financial condition had worsened as a result of a new \$20,000 installment debt incurred for the purchase of a 1994 Acura automobile. The OIG's investigation revealed, however, that he had paid cash for the vehicle! Upon learning of the investigation in September 1996, he 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 Tax Preparer Sentenced for Making Material False Statements. A tax preparer in Glendale, California, was sentenced on May 15, 1997, to 3 years probation, 400 hours community service, and a \$5,000 fine. He had pled guilty to aiding and abetting the **making of material false statements** by preparing altered income tax returns which were submitted to SBA in support of a \$450,000 economic injury disaster loan application. The tax preparer significantly overstated the incomes of both the applicant company as well as its owner. The OIG's joint investigation with the U.S. Secret Service revealed that the tax preparer also prepared altered income tax returns for two other SBA disaster business loan applicants who had both previously pled guilty to charges resulting from this investigation. He is the first tax preparer charged in the continuing investigation of disaster loan applications packaged by two southern California brothers acting as loan packagers.

Arizona Businessman Sentenced for Forgery. The owner of a now-defunct machinery company in Buckeye, Arizona, was sentenced in Arizona Superior Court on July 31, 1997, to 3 months imprisonment, 4 years probation, and \$383,700 in restitution to SBA. He had pled guilty to one count of **forgery**. The joint OIG and U.S. Secret Service investigation revealed that the man had forged his estranged wife's signature on numerous disaster loan documents to obtain from SBA a \$56,100 business physical disaster loan and a \$327,600 economic injury disaster loan. Charges were brought by the Arizona State Attorney General's Office after Federal prosecution was declined. The investigation was initiated based on a referral by SBA's Phoenix District Office.

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Small Business Investment Companies

Korean Businessman in California Sentenced for Misapplication of SBIC Funds. A Korean national who had been president and majority shareholder of a now-defunct specialized small business investment company (SSBIC) in Los Angeles, California, was sentenced on August 11, 1997, to 6 months home detention, 5 years probation, and \$20,000 restitution to SBA. He had pled guilty to four felony counts of **misapplication of funds of a small business investment company** following a lengthy

investigation which the OIG conducted jointly with the FBI. The case was initiated after allegations of wrongdoing were received from the SSBIC's investment advisor, an individual who had been placed in that position by SBA to monitor the company's operations. The investigation disclosed that the man made false statements concerning the amount of money he had invested in the SSBIC and that he misapplied more than \$400,000 by pledging company assets for his personal enrichment. To conceal his illegal activities, he also falsely reported in the SSBIC's records that loans totaling at least \$337,500 had been repaid. In 1987, the SSBIC was placed in receivership by SBA, which thereafter obtained a civil judgment in excess of \$5 million against the company and its

president. SBA ultimately suffered a loss of more than \$4.1 million because of the man's actions.

The Activity Update is produced by the SBA/OIG, James P. Hoobler, Inspector General.

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Comments or questions concerning this update or requests for copies of OIG

Editor's Notes:

Should be directed to Johnny Cahn, SBA Office of the Inspector General. The article appearing in this issue of the Update December 1991 is the result of OIG investigative efforts. The Update generally reports all intermediate outcomes of criminal investigations (charges, pleas, court actions, convictions) as they occur, as well as, final results (sentences, settlements). While audits and inspections produce equally valuable results, they tend to take 6 to 9 months of research, analysis, and production prior to their publication. Consequently, they do not produce intermediate results that lend themselves to monthly reporting. Several audits and inspections are, however, currently underway and will be reported in upcoming issues of the OIG Update.

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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.



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WWW.SBAONLINE.SBA.GOV/IG/REPORTS.HTML