



Office of Inspector General U.S. Small Business Administration

December 2008 Update

Business Loan Programs

Results of Ongoing Investigation. The following case is part of an ongoing investigation relating to a scheme in which a non-bank lender's former executive vice president and others not employed by the lender conspired to fraudulently qualify loan applicants for SBA-guaranteed loans.

- On December 1, 2008, the former owner of a finance company in Arlington Heights, Illinois, pled guilty to one count of bank fraud and one count of bank entries, reports and transactions. The bank fraud charge relates to his submitting a false account verification letter and bogus tax returns to a bank in order to influence the approval of a \$1.2 million home equity line of credit. The second count relates to a scheme to induce a non-bank lender and SBA to approve a \$1.35 million SBA-guaranteed loan to one of his companies. He also provided fraudulent cashiers' checks at loan closing. This investigation revealed that, in addition to obtaining an SBA loan for himself, he brokered approximately 46 SBA-guaranteed loans for others using the non-bank lender involved in the ongoing investigation. An extensive review of the loan documentation for these loans revealed that fraudulent equity injection documentation was provided to the lender in at least 25 separate instances. As part of the plea agreement, he agreed to take responsibility for brokering these fraudulent SBA loans. As a result, the sentencing guidelines will be based on the loss amounts attributed to the fraud scheme that he perpetrated. The total loss, which includes loans charged off and loans currently in liquidation, is \$9,046,588. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

Virginia Business Owner Sentenced. On December 16, 2008, in U.S. District Court, Eastern District of Virginia, a Fairfax, Virginia business owner and notary public was sentenced to 2 years probation, \$188,332 in restitution, and a \$100 special assessment fee, after previously pleading guilty to one count of wire fraud. The investigation revealed that, after receiving a \$690,000 SBA-guaranteed business loan secured by her home, she created a fraudulent release of lien on a bank's letterhead, which she downloaded from the Internet. She notarized the fraudulent release of lien and, posing as a bank official, recorded it at the Fairfax County Land Record Office. She then refinanced her home, receiving a cash payout of approximately \$158,000. Bank officials discovered the fraudulent release of lien during a routine asset check, and reported their findings to SBA's National Guaranty Purchase Center and the OIG. The former business owner defaulted on her SBA-guaranteed loan.

Four Individuals Indicted. On December 29, 2008, an indictment was filed in the Southern District of Texas charging four individuals with one count of conspiracy, one count of false statements on a loan application and aiding and abetting, one count of mail fraud, and one count of wire fraud. Two of the individuals were the president and vice president, respectively, of a Texas business that owned convenience stores in Caldwell and Gonzales counties; the third owned a business that purchased convenience stores from the previous business; and the fourth owned a title company in Houston, Texas. The investigation disclosed that the company owned by the third individual obtained a \$1 million SBA-guaranteed loan through a non-bank lender and a \$300,000 non-SBA loan from a bank to finance the purchase of a convenience store from the first company. It is alleged that the defendants falsely represented to the bank that the purchaser provided funds at closing. The OIG is conducting this investigation jointly with the FBI.

California Loan Broker Charged. On November 18, 2008, in the Superior Court of California for the County of Los Angeles, a loan broker was charged in a felony complaint with one count of false financial statements and one count of grand theft of personal property. The investigation revealed that the loan broker was part of a sophisticated identity theft ring operated by an Israeli National for the sole purpose of obtaining fraudulent business and residential loans and credit cards. The Israeli National has since pled guilty and been sentenced for SBA loan fraud and real estate fraud. The investigation alleges that the loan broker conspired with and assisted the Israeli National in obtaining a mortgage loan by making false statements regarding his income on the loan application. The OIG is conducting the investigation jointly with the Los Angeles Police Department; the California Department of Insurance; the Immigration and Customs Inspection Service; the Postal Inspection Service; and the Social Security Administration, OIG.

Disaster Loan Program

Louisiana Man Pleads Guilty. On December 10, 2008, in U.S. District Court for the Middle District of Louisiana, a Louisiana man agreed to waive indictment and entered a plea of guilty to a criminal information charging him with one count of wire fraud. He applied for and received an SBA disaster home loan of \$94,000 and an SBA disaster business loan of \$125,500, claiming damages from Hurricane Katrina to both his residence and his wife's day care business, which was located at the same address. He transmitted, via facsimile, bogus inflated receipts to the SBA as supporting documentation for completed repairs. Based upon the fraudulent receipts, SBA approved additional installment payments from the approved loans. This investigation is being conducted jointly with the Hurricane Katrina Fraud Task Force.

Mississippi Couple Indicted. On December 2, 2008, a husband and wife were indicted in U.S. District Court for the Southern District of Mississippi on one count of conspiracy, two counts of theft of government funds, and one count of the forfeiture statute. The wife was indicted on one additional count of theft of government funds. This case was initiated based on a referral from the U.S. Attorney's Office for the Southern District of Mississippi. During a previous investigation of the wife on separate charges,

information was disclosed that alleged that she and her husband had applied for and received disaster relief funds for an address that was not their primary residence. The couple had received nearly \$300,000 in fraudulent funds, of which \$152,000 was from the SBA for a disaster home loan. The OIG is conducting this investigation jointly with the U.S. Department of Housing and Urban Development, OIG; the Mississippi State Auditor's Office, the U.S. Department of Homeland Security, OIG; and the U.S. Department of Health and Human Services, OIG.

Government Contracting and Business Development

Maryland Business Owner Sentenced. On December 17, 2008, in U.S. District Court for the District of Maryland, the president and owner of a demolition and asbestos abatement company in Baltimore, Maryland, was sentenced to 2 months in jail, 3 years probation, a \$100,000 fine, and a \$100 special assessment fee. He previously pled guilty to one count of conspiracy to defraud the SBA. The company was a participant in the Section 8(a) program, with the president/owner as the qualified disadvantaged individual. In order to maintain the company's 8(a) eligibility requirements, the president/owner conspired with others to violate SBA requirements related to control and ownership by not disclosing that non-disadvantaged individuals provided start-up money for the company, exercised significant control over the contracts bid upon, and directed the selection and payment of subcontractors. Further, between 2002 and 2004, the non-disadvantaged individuals received approximately \$900,000 more in bonuses and salaries than the president/owner. The OIG is conducting this investigation jointly with the Environment Protection Agency, Criminal Investigative Division; the Naval Criminal Investigative Service; the Internal Revenue Service, Criminal Investigative Division; and the FBI.

Agency Management

Audit of SBA's FY 2008 Financial Statements – Management Letter. Pursuant to the Chief Financial Officers Act of 1990, an audit of SBA's FY 2008 financial statements was performed by KPMG LLP under a contract with the OIG. The independent

auditor's report was issued on November 14, 2008. On December 17, 2008, KPMG's *Management Letter* was issued. The *Management Letter* provided comments and recommendations regarding certain matters involving internal control and other operational matters that were noted during the audit, but not considered reportable conditions.

This monthly update is produced by the SBA OIG,
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