



Office of Inspector General Small Business Administration

August 1996 Update

Business Loans

California Loan Packager Sentenced to Prison Term for Fraud. A Westminster, California, loan packager was sentenced on August 12, 1996, to 24 months imprisonment, 3 years supervised release, and \$86,000 restitution. He had previously pled guilty to two counts of **bank fraud** and one count of **making false statements to a Federally-insured financial institution**. This action resulted from an extensive OIG/FBI investigation to examine a fraudulent loan packaging scheme implemented by this packager. To obtain SBA-guaranteed loans for himself and numerous clients, he created false financial documents such as tax returns and invoices. A total of 14 borrowers, all of whom were his clients, have also been convicted of **making false statements to Federally-insured lenders**. Also, one bank official was convicted of **illegal receipt of commissions for procuring loans**. All of these convictions resulted from the subject loan packager investigation, which was initiated based on a referral from SBA's Los Angeles District Office.

Jewelry Store Owner Indicted for Making False Statements. The owner of a retail jewelry store in San Luis Obispo, California, was indicted on August 15,

1996, on five counts of **making false statements to a Federally-insured financial institution**. A lengthy investigation was initiated in response to information provided by the Fresno District Office. This joint OIG/FBI investigation revealed that the store owner submitted altered copies of his 1986 and 1987 individual income tax returns in applying for a \$450,000 SBA-guaranteed loan approved in 1988. He subsequently provided altered copies of tax returns, both individual and corporate, for 1988-90 and obtained another SBA-guaranteed loan for \$100,000. Both loans defaulted and were liquidated. Following the liquidation efforts, a total of \$336,895.72 was charged off by the SBA.

Georgia Tax Accountant Pleads Guilty to Submitting False Documents. A former Decatur, Georgia, tax accountant pled guilty on August 14, 1996, to one count of **submitting false documents to SB A** in connection with a \$154,000 SBA-guaranteed loan to his sole proprietorship. The OIG's investigation established that he submitted altered copies of tax returns for the years 1986-88, thereby substantially overstating his income for the purpose of procuring his loan. He also submitted, as collateral for the loan, a "deed to secure debt" on which his wife's signature had been forged. The OIG initiated the

investigation based on a referral from the Atlanta District Office.

Three Southern California Businessmen Plead Guilty to Making False Statements.

Three southern California businessmen, each a client of a loan broker whose operations are the subject of an ongoing OIG investigation, recently entered guilty pleas.

❶ The owner of a Los Angeles grocery and liquor store pled guilty on July 1, 1996, to **making a false statement to SBA** to obtain his \$231,000 disaster business loan. The investigation found that he had submitted altered 1989 and 1990 tax returns to obtain a disaster loan to repair damage from the 1992 civil unrest. Each of the returns significantly overstated his income. The defendant sold the store in 1992, including SBA's collateral for the disaster loan, and received nearly \$500,000 from the sale of the business.

❷ The owner of a grocery store in West Covina, California, pled guilty on July 15, 1996, to **making false statements in a loan application to a Federally-insured bank**. He had obtained a \$285,000 SBA-guaranteed business loan based on an application containing altered copies of income tax returns for 1988-90. Each of the returns significantly overstated his income.

❸ The owner of a clothing manufacturer in La Canada,

California, pled guilty on August 2, 1996, to **making false statements in a loan application to a Federally-insured bank**. Using altered copies of income tax returns for 1987-89, he had obtained a \$1 million SBA-guaranteed business loan. Each of the returns significantly overstated the net profits from his business.

The OIG initiated its joint investigation with the U.S. Secret Service after the participating lender bank and the Los Angeles District Office referred the matter.

California Bank Officer Charged with Making False Statement.

A former personal banking officer at a bank in Paramount, California, was charged in a criminal information on August 23, 1996, with one count of **making a false statement to SBA**. In an attempt to help her sister, who had applied for a \$2.1 million Section 504 loan, the woman prepared a false deposit verification form for submission to both SBA and a participating lender bank. On the form, she represented that her bank had two accounts, with a combined balance of \$790,000, held solely in her sister's name. In fact, the accounts were never the sole property of her sister. The accounts listed on the form had been opened by a third party, and the bank officer had added her sister's name at a later date. The false statement was detected during a joint OIG/U.S. Secret Service investigation of the loan broker who had submitted the loan application to the participating lender bank. As a result, SBA canceled the loan, producing a \$750,000 cost avoidance (SBA's

guaranteed share), and the woman was terminated from her position at the bank. The OIG initiated the investigation based on information which surfaced during the investigation of the loan broker.

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Disaster Assistance

Ongoing OIG Investigation of Two Southern California Loan Packagers Yields More Results. In the latest results from the ongoing investigation of two southern California brothers acting as loan packagers, one more of their clients entered a guilty plea and two more were sentenced. All three actions involve applications for economic injury disaster loans filed in the wake of the 1992 civil unrest in Los Angeles, California.

❶ The owner of a clothing manufacturer in Los Angeles, California, pled guilty on July 29, 1996, to **filing a false claim with SBA**. With his application for a \$500,000 loan, the man submitted altered copies of tax returns which significantly overstated his business's income. He also submitted a schedule of liabilities that included numerous creditors with whom he had never actually done business.

❷ One of the owners of another clothing manufacturer in Los Angeles, California, was sentenced on July 29, 1996, to 5 years probation, \$218,500 restitution, and 2,000 hours community service for **theft of Government funds**. In

connection with his application for a \$360,000 loan, the man claimed to be the sole owner of the company, when he actually owned only 65 percent. He concealed the other owner's interest from SBA to hide the other owner's poor credit history.

❸ The owner of a third clothing manufacturer in Los Angeles, California, was sentenced on August 12, 1996, to 5 years probation, \$28,000 restitution, and 2,000 hours community service. He previously pled guilty to **filing a false claim with SBA** -- admitting that he submitted copies of fictitious income tax returns as part of his application for a \$300,000 loan following the 1992 Los Angeles civil unrest. The fictitious returns significantly overstated his business income.

All of the above actions resulted from a joint OIG/U.S. Secret Service investigation of falsified loan applications prepared by the two brothers; the case was opened as a result of a tip from a concerned citizen and a referral from the Disaster Assistance Area 4 Office.

Mississippi Businessman, Wife, and Attorney Guilty of a Variety of Charges. The proprietor of a tree and lumber business in Hattiesburg, Mississippi, and his spouse were found guilty by a Federal trial jury on August 16, 1996. The husband was convicted on one count of **conspiracy** and two counts of making material **false statements** to influence SBA, and his wife was convicted on one count of making material **false statements** to influence SBA. The

couple's attorney also pled guilty on August 13, 1996, to making material **false statements** to influence SBA. All the charges relate to a \$222,400 economic injury disaster loan received in 1993. The man and his attorney had been charged with submitting a personal financial statement falsely representing that the businessman owned certain real and personal property that, in fact, had previously been foreclosed on and seized by creditors. All three defendants had been charged with submitting falsified title documents to support the fictitious claim that the couple was mortgaging the 80-acre real property to SBA. Finally, the indictment alleged that the couple had improperly negotiated joint-payee Treasury checks representing \$124,900 of the disaster loan proceeds. Parenthetically, evidence developed by the OIG's investigation also resulted in the husband's indictment by a Lamar County, Mississippi, grand jury on one count of **false pretense** for improperly negotiating one of the joint-payee Treasury checks; however, that charge has not yet been tried. The OIG initiated the investigation based on a referral from SBA's Gulfport Branch Office.

Georgia Disaster Loan Applicant Pleads Guilty to Making False Statements. A St. Marys, Georgia, man pled guilty on August 16, 1996, to one count of **making material false statements** to induce the SBA's disbursement of a \$125,000 disaster business loan based on physical damage to a mobile home park. The investigation found that the applicant falsely represented that he had been the sole owner of a mobile home park and six mobile homes when they were damaged or destroyed during a severe storm. He also falsely stated that he would use

proceeds of the disaster loan to repair or replace the six mobile homes. The OIG initiated the investigation based on information from an anonymous caller.

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Minority Enterprise Development

Audit Uncovers Unauthorized Contract Brokering by Section 8(a) Firm. A recent audit found that a Section 8(a) company filled an office supplies contract by brokering the entire procurement to other firms who drop-shipped the orders directly to the procuring agency. In such cases, the OIG stated in an "audit-related memorandum" dated August 21, 1996, the Section 8(a) firm added no discernable value, and further, this practice was not helping to prepare companies to be competitive in business. Moreover, the Government was not assured fair market pricing.

SBA regulations require that a Section 8(a) firm be a manufacturer or regular dealer in items supplied to the Government, referring to the requirements of the Walsh-Healy Act. Although that Act has been amended to eliminate the section on "regular dealers," the Office of Minority Enterprise Development and the Office of General Counsel have both stated that the substance of the Walsh-Healy Act still applies to the Section 8(a) program. The OIG therefore recommended that the definitions in the Agency's procedures needed clarification to accommodate the Walsh-Healy amendments. Further, although "brokers" and "packagers" are

ineligible under SBA regulations, these terms are not defined.

The Associate Administrator for Minority Enterprise Development generally concurred with the findings of the report.

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

Comments or questions concerning this update or requests for copies of OIG audits, inspections, or other documents should be directed to Johnny Cahn, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110.

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