



Office of Inspector General Small Business Administration

November 1999 Update

Business Loans

Former Co-Owners of Publications Company in Idaho Plead Guilty to Making False Statements to SBA. Two former co-owners of a direct-mail advertising company in Meridian, Idaho, were charged with one count of **making false statements to SBA** in an information filed on October 29, 1999. The co-owners pled guilty to the charge on November 5, 1999. OIG's joint investigation with the Federal Bureau of Investigation (FBI) found that both women submitted false statements to SBA and the participating lender bank to obtain disbursements on a \$90,000 SBA-guaranteed business loan. They created false invoices to show that they had spent \$28,872 on equipment that, in reality, they had not purchased. This investigation was based on a referral from SBA's Idaho District Office.

First Guilty Plea Results from Investigation of California Broker. The first prosecutive result has been reported from the investigation of a business and SBA-loan broker in Upland, California. During 1991, the broker presented six loan applications to a now-defunct bank for SBA guaranty consideration. These applications, aggregating \$2,722,500, were submitted as individual credit situations, each standing on its own merit. Officials of the bank knew each applicant was part of a

much larger scheme. In this alleged scheme, approximately \$4 million was raised (consisting of \$1,250,000 of undisclosed non-SBA financing made by the bank for its own account plus the proceeds of the six SBA loans) to enable an existing SBA borrower to buy an independent oil company. The existing SBA borrower at the bank was closely associated with the other six borrowers' principals. His purchase of the oil company was allegedly accomplished through the use of double/simultaneous escrows and falsification of documents used to support capital injection requirements. On October 22, 1999, one of the six loan applicants approved by the bank for a \$700,000 loan pled guilty to one count of **making false statements to a federally insured financial institution.** The investigation, conducted jointly with the FBI, disclosed that he had submitted altered 1988-90 tax returns to the bank in support of his loan application.

New York Dentist Pleads Guilty to Bank Larceny. A Williamsville, New York, dentist pled guilty on November 23, 1999, to one count of **bank larceny** in connection with a \$150,000 SBA-guaranteed loan made through a Buffalo, New York, bank. The investigation revealed that the dentist had leased, not purchased equipment for his dental practice that he pledged as collateral on the loan. He used loan

proceeds instead to buy personal items such as stereo equipment, jet skis, motorcycles, and appliances. He failed to make the required lease payments, causing the leasing company to repossess the equipment the bank and SBA thought was the security for the defaulted loan. The investigation, conducted jointly with FBI, was based upon a referral from SBA's Buffalo District Office.

Missouri Realty Company President Indicted for Money Laundering, Bank Fraud. The president and owner of a realty company in St. Louis, Missouri, was indicted on November 18, 1999, on one count of **money laundering** and one count of **bank fraud**. He had been investigated in connection with alleged schemes to defraud SBA, the Department of Housing and Urban Development (HUD), the Internal Revenue Service (IRS), and others. As part of his plea agreement with the U.S. attorney's office, he will stipulate to making false statements to both SBA and a participating lender bank to obtain a \$70,000 LowDoc business loan. The joint investigation by SBA/OIG, HUD/OIG, the Social Security Administration OIG, IRS, and FBI revealed that he submitted documents, including his SBA loan application and fictitious tax returns, that contained a false social security number. The social security number used by him belonged to an individual who was born in 1889 and died in 1976. SBA/OIG initiated its investigation based on a referral from HUD/OIG.

Virgin Islands Construction Company Co-Owner Pleads Guilty to Conspiracy. The surviving co-owner of a now-defunct Virgin Islands construction company pled guilty on November 1, 1999, to one count of **conspiracy** to commit money laundering. The owner agreed to make full restitution to SBA and the participating lender. In 1998 the co-owners, who were subjects of a joint investigation by OIG and FBI, had been indicted on

charges of **conspiracy, bank fraud, making material false statements, and money laundering**. The indictment charged that, in applying for an SBA-guaranteed loan in 1992, the owner had submitted a fraudulent business proposal and other documents listing \$420,000 as the value of machinery to be purchased with the loan funds. The actual cost of the machinery was only \$120,000. Prior to the first loan disbursement, the owner opened a checking account in Las Vegas, Nevada, in the name of the proposed Ohio supplier. Through the Las Vegas account, he was able to receive fraudulently the disbursements that were intended for the Ohio vendor. After relocating his company to Fort Lauderdale, Florida, without authorization from either the bank or SBA, the owner spent the majority of the loan funds on unauthorized expenses. The company failed in 1995, causing a loss to SBA and the bank of more than \$400,000. This investigation originated from a referral from SBA's Puerto Rico & Virgin Islands District Office. *(Updated from November 1998 Update.)*

Iowa Restaurateur Sentenced for Making Material False Statements. The former president of a restaurant and dairy freeze in Lineville, Iowa, was sentenced on October 12, 1999, to serve 4 months of home detention and 3 years probation. He was also ordered to pay \$48,287 in restitution to SBA. He previously pled guilty to one count of **making material false statements** to SBA regarding his use of funds from a \$50,000 direct SBA loan he received in 1994. He qualified for this loan as a Vietnam-era veteran. OIG's investigation found that he made numerous false statements to SBA regarding his use of the loan proceeds, which were intended to pay for equipment, remodeling expenses, and the remainder of the purchase price of his restaurant. After making only a few payments, he defaulted on this loan, closed the restaurant, and left Iowa. This investigation was initiated based on a referral

from SBA's Des Moines District Office.
(Updated from the August 1999 Update.)

Virginia Taxicab Company Owner Pleads Guilty to Making False Statement to SBA.

The president and owner of a taxi company in Culpeper, Virginia, pled guilty on November 18, 1999, to one count of **making a false statement** to SBA to obtain a \$35,000 LowDoc loan for her business. The owner had represented on SBA Form 4-L, Application for Business Loan, that she had no previous criminal history. OIG's investigation established, however, that before the date of her loan application she had been arrested in five separate incidents. Her sentencing hearing is scheduled for February 1, 2000. (Updated from the August 1999 Update.)

Former Furniture Store Owner in California Sentenced for Making False Statements. The former owner of a retail furniture store in Garden Grove, California, was sentenced on November 15, 1999, to serve 2 years in prison and 5 years of supervised release and ordered to pay SBA \$145,000 in restitution. In May 1998 a trial jury had found her guilty of five counts of **making false statements to influence a federally insured financial institution**. She was the last of the five defendants to be sentenced as a result of an extensive investigation, which OIG conducted jointly with FBI. The investigation found that she obtained a \$250,000 SBA-guaranteed loan for her business by providing "copies" of income tax returns altered to substantially overstate her income. She diverted the loan proceeds to the purchase of a personal residence and subsequently defaulted on the SBA loan, leaving an outstanding balance of \$242,380. The investigation identified additional loans, obtained by her with the use of altered tax returns that resulted in two superseding indictments. SBA's Santa Ana District Office brought the original information to OIG's attention. (Updated from May 1998 Update.)

Editor's Notes:

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.

Most audit and inspection reports can be found on the Internet at:

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

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