



Office of Inspector General U.S. Small Business Administration

July/August 2010 Update

Business Loan Programs

Assessment of the Community Express Pilot Loan Program. On August 25, 2010, the OIG issued an [assessment](#) of SBA's Community Express (CE) pilot loan program, established in 1999 to provide loans to New Market small businesses. SBA requested the review. The OIG's objectives were to determine whether: (1) CE increased the number and dollar amount of loans provided to New Market groups, while keeping credit risk at an acceptable level; (2) loan recipients benefited from lower interest rates and fees, and if lenders adequately justified their fees; (3) technical assistance was provided to CE borrowers; and (4) the program's success was adequately measured.

The OIG found that CE contributed little to growth in loans to New Market groups between Fiscal Years (FYs) 2000 and 2008, and fell short of annual limits due to a lack of lender interest. The program also cost more than all other 7(a) programs. As of June 2009, the program's net cash flow was negative \$102.4 million and added to the overall cost of the 7(a) program. The program's cost resulted from a high rate of loan defaults by the two most active lenders. These lenders used credit scoring to determine loan amounts and reduced loans up to 80 percent without assessing the impact on the borrowers' projected cash flows.

The OIG found CE loan recipients generally were charged higher interest rates by the more active lenders and lower rates by the less active lenders. Also, while loan-packaging fees charged for CE loans were in line with those the lenders generally charged for other 7(a) loans, lenders contacted by the OIG were unable to justify the basis for their fees.

The OIG also found that technical assistance provided did not always match borrower needs, and lenders were compensated with a higher guaranty percentage

when technical assistance was provided on-line or by SBA partners, even though they incurred no costs for training. These lenders should have had their guaranties reduced from 85 percent to 50 percent.

Finally, although the CE program has been a pilot since 1999, SBA did not establish measurable goals and outcomes for evaluating the program until FY 2008 and has yet to assess the program's effectiveness.

The OIG recommended that SBA not extend the CE program when it expires in December 2010 or, if the Agency retains the program, that it take steps to increase lender participation; reduce program risk; reconsider how program costs should be financed; clarify the appropriate uses of credit scoring; improve the type and quality of technical assistance provided to borrowers; and establish criteria for assessing borrower technical assistance needs and for measuring the program's success. The OIG also recommended that SBA revise its program procedures to limit its guaranty to 50 percent on loans where technical assistance is provided by SBA partners or SBA's online training; repair \$18,960 in guaranties on 4 loans it purchased above the 50-percent guaranty level; and annotate another 30 loans for a potential repair of \$268,190 should they default.

SBA agreed to seek repairs and to annotate its files on the loans identified. It also agreed to address the remaining recommendations.

Missouri Man Pleads Guilty. On July 7, 2010, a Missouri pled guilty to one count of making false statements for the purpose of influencing the SBA. The investigation disclosed that, to obtain a \$750,000 SBA-guaranteed loan, he signed several SBA documents stating he was the owner of a company

when, in fact, the company was created solely on paper to obtain the SBA funding. He also signed SBA documents affirming that certain portions of the loan proceeds were to be used for equipment and inventory purchases, working capital, and debt repayment, when, in fact, he knew the loan proceeds would be used to pay down an outstanding loan balance of another business. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

Georgia Businessman Pleads Guilty. On August 2, 2010, the president of a sports bar in Snellville, Georgia, pled guilty to one count of false statements. An investigation revealed that he provided false information on his SBA Form 912 (Statement of Personal History) when applying for a \$1.8 million loan from an SBA lender. Specifically, he indicated that he had no previous criminal history, when, in fact, he had been arrested and convicted on numerous occasions for various crimes including driving under the influence, simple assault, and possession of illegal substances.

Missouri Businessman Pleads Guilty. On July 28, 2010, the president of a construction company pled guilty to one count of aiding and abetting the misapplication of funds. He signed a \$300,105 promissory note for a line of credit from a Dixon, Missouri bank, stating that the purpose of the line of credit was to provide business funds for his construction company. The investigation disclosed that he obtained a \$262,647.82 draw on the line of credit and then caused a wire transfer of the same amount to another bank in order to benefit other subjects of this investigation. The OIG is conducting this investigation jointly with the FBI.

Illinois Entrepreneur Pleads Guilty. On August 18, 2010, an Illinois entrepreneur pled guilty to one count of false statements. He and three other businessmen were charged with multiple counts of wire fraud in connection with schemes to defraud the SBA and one of its preferred lenders. One of the schemes involved a \$1,240,000 SBA loan to an Illinois corporation for the purchase of a gasoline station in Chesterton, Indiana. The Illinois man, who was the president and a 50% owner of the corporation, conspired with a loan agent and his company to submit a fraudulent loan application to SBA and the lender showing that adequate cash funds were available for the required equity injections.

California Restaurant Owner Indicted. On August 20, 2010, the owner of several California restaurants was indicted on three counts of false statement to a federally insured financial institution. The indictment charges that he made false statements on his loan applications for three SBA-guaranteed loans, totaling \$1,038,000. On the applications, he stated that neither he nor his businesses were involved in any pending lawsuits and had no business indebtedness. The investigation alleges that, in fact, he had been named as a defendant in two civil lawsuits, resulting in judgments against him of approximately \$1.9 million, and had many unreported outstanding debts.

California Business Owner Indicted. On August 20, 2010, the owner of a cosmetic business in Reseda, California, was indicted on one count of false statements to a federally insured financial institution. He submitted a loan application for a \$30,000 SBA-guaranteed loan from one lender and, about 9 months later, submitted a second loan application for an SBA-guaranteed loan from another lender for approximately \$170,000. The indictment alleges that when he applied for the second loan, he falsely reported that he had no previous SBA loans.

California Business Owner Indicted. On August 20, 2010, the owner of a kitchenware business in Los Angeles, California, was indicted on two counts of false statements to a federally insured financial institution. Within a 1-month period, he applied for three SBA Express loans—totaling \$120,000—from three different lenders. The indictment alleges that, when applying for the second and third loans, he falsely reported that he had no previous SBA loans.

Government Contracting and Business Development

Defense Contractor Settles. On July 29, 2010, a defense contractor agreed to pay the United States \$750,000 to settle claims that it fraudulently obtained from the Army contracts that had been set aside for companies that qualified for the Small Business Administration's Historically Underutilized Business Zone (HUBZone) program. It was alleged that the company did not actually maintain its principal office in a designated HUBZone location in Washington, D.C., as it had represented to the Army and the SBA, but rather set up its office in a Virginia suburb. Additionally, it was alleged that it did not employ a

sufficient percentage of employees who lived in a HUBZone. The OIG conducted this investigation jointly with the Defense Criminal Investigative Service.

Disaster Loans

Florida Man Pleads Guilty. On July 23, 2010, a Florida man pled guilty to a one count of knowingly making a false statement to the SBA for the purpose of obtaining a loan. He submitted fraudulent documents to induce the SBA to approve a \$143,700 disaster loan for damages to a property that was not his primary residence at the time of Hurricane Wilma. In addition, he used the disaster loan funds to repair pre-existing damage not caused by Hurricane Wilma and to pay-off pre-existing debt on the property. The SBA OIG is conducting this investigation jointly with the Department of Homeland Security (DHS) OIG.

Florida Man Sentenced. On August 4, 2010, the manager of a North Palm Beach, Florida construction company was sentenced to 18 months in prison, 1 year supervised release, \$42,833.78 in restitution, and a \$100 special assessment fee. He had previously pled guilty to one count of making a false statement to the SBA. On behalf of the construction company, he applied for a \$239,300 Economic Injury Disaster Loan (EIDL) in the wake of Tropical Storm Fay, falsely claiming his cash flow had been negatively affected due to a canceled \$690,000 subcontract. He also misrepresented the state of his credit and the status of several pending foreclosures. The OIG conducted this investigation jointly with the FBI.

Former SBA Employee Convicted. On August 12, 2010, a former SBA paralegal in Texas was found guilty of fraud and aggravated identity theft. The investigation revealed that a prospective SBA borrower completed an application for \$33,600 SBA disaster loan but later decided not to take the loan. The SBA employee, who was working at the Disaster Processing Center in Fort Worth, Texas, took the phone call from the prospective borrower when he called to have his loan canceled. The investigation disclosed that she then forged that person's signature on loan closing documents, altered a personal check so the funds would be directed to her own bank account, and made false entries into SBA's Disaster Credit Management System (DCMS) to support loan disbursement to her personal checking account.

Louisiana Woman Charged. On August 26, 2010, a Louisiana woman was charged with three counts of theft of government funds. It is alleged that on her applications for disaster assistance she provided false statements regarding her primary residence being affected by Hurricane Katrina. Although she owned the property, the house was considered unlivable prior to the storm. As a result of the representations, she received \$219,000 in disaster loan funds from the SBA, a \$150,000 grant from the Housing and Urban Development (HUD) Road Home Program, and approximately \$26,676 from the Federal Emergency Management Agency. The SBA OIG is conducting this investigation jointly with the HUD OIG, the DHS OIG, and the FBI.

Husband and Wife Plead Guilty. On August 2, 2010, a husband and wife each pled guilty to one count of false or fraudulent claims. They were approved for an SBA disaster home loan in the amount of \$240,000 for property they owned in Ocean Springs, Mississippi, based on their claim that the property was their primary residence at the time that Hurricane Katrina hit the Gulf Coast. In fact, the couple did not live at this location at that time, but were living in California. The SBA OIG is conducting this investigation jointly with the HUD OIG, the DHS OIG, and the Mississippi State Auditor's Office.

Louisiana Woman Indicted. On August 26, 2010, a Louisiana woman was indicted on one count of theft of government funds, one count of mail fraud, three counts of false statements, and one count of possession of a falsely obtained passport. She received an EIDL on behalf of her father in the amount of \$342,000. The indictment alleges that she submitted a false mortgage as security for this loan. It also alleges that she submitted leases with inflated rental amounts to prove her ability to repay the loan and receipts misrepresenting work done on the properties with the loan proceeds. The SBA OIG is conducting this investigation jointly with the HUD OIG, the DHS OIG, and the Department of State OIG.

Louisiana Man Charged. On August 26, 2010, a Louisiana man was charged with one count of theft of government funds. It is alleged that he submitted an application to the Louisiana Road Home Program falsely declaring a New Orleans, Louisiana property as his primary residence. He received \$61,000 from the Louisiana Road Home Program. He allegedly used the same information when applying for an SBA loan

and received \$86,700 from the SBA. The SBA OIG is conducting this investigation jointly with the HUD OIG.

This monthly update is produced by the SBA OIG, Peggy E. Gustafson, Inspector General.

The OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments concerning this update or other OIG publications. To obtain copies of these documents please contact:

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