



## Office of Inspector General U.S. Small Business Administration

April 2007 Update

### *Business Loan Programs*

Ongoing Investigation Results in Indictments/Guilty Pleas. In January 2007, agents from the SBA OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The scheme involved as many as 76 fraudulent loans totaling almost \$77 million. The cases below are part of this ongoing investigation, which is being conducted jointly with the U.S. Secret Service.

- On April, 12, 2007, the corporate secretary of a Warren, Michigan, auto service center pled guilty to one count of conspiracy arising out of his fraudulent acquisition of a \$1.1 million SBA-guaranteed loan. He was previously indicted along with the corporate president and a loan broker. These three individuals made or caused false statements to be made to SBA by claiming that \$210,000 in repairs and renovations to the auto service center had been completed prior to loan closing. The business defaulted on the loan and SBA paid a claim of \$789,186.18 to the lender. Charges against the corporate president and the loan broker are pending. The loan broker is a fugitive and is believed to have returned to his native country, Qatar.
- On April 12, 2007, the president of a Lake, Michigan, company pled guilty to one count of conspiracy arising out of his fraudulent acquisition of a \$990,000 SBA-guaranteed loan. The investigation showed that he conspired with his brother and others to fraudulently qualify him for the SBA-guaranteed loan to be used to purchase a gas station and convenience store from a Detroit, Michigan, company of which his brother was president. The object of the scheme was actually

to refinance and consolidate delinquent debts owed by the financially-troubled Detroit company using proceeds from the loan made to the "straw buyer." The conspiracy was aided through the use of a false sales agreement, an inflated purchase price, and a bogus down payment. The loan defaulted and SBA paid a claim of \$719,106.84 to the lender. Charges against the brother are pending.

- On April 10, 2007, three individuals (two borrowers and a seller) were indicted in two multi-count indictments for causing false equity injection documents to be presented to a lender as a condition of obtaining SBA-guaranteed loans. In the first indictment, two of the individuals were charged with one count of conspiracy and eleven counts each of false statements and aiding and abetting. False equity injection documents were allegedly used by the first borrower to obtain a \$1,400,000 SBA-guaranteed loan to purchase a Redford, Michigan, business. The seller verified the false equity injection documents, which allowed the borrower to obtain the loan. The loan defaulted and SBA paid a claim of \$1,037,897. In the second indictment, two of the individuals were charged with one count of conspiracy and nine counts each of false statements and aiding and abetting. False equity injection documents were allegedly used by the second borrower to obtain a \$1,310,000 SBA-guaranteed loan to purchase a Riverview, Michigan, business. The seller again verified the false equity injection documents, which allowed the borrower to obtain the loan. This defaulted loan resulted in the SBA paying a claim of \$876,590.

Business Owner Pleads Guilty. On April 25, 2007, a Chicago area business owner pled guilty to one count of conspiracy to make false statements to a financial institution. The charges arose from a loan application submitted by her husband for a \$594,000 SBA

Section 504 loan to buy and improve property for an interstate trucking firm. Although the husband claimed on the application that he was a U.S. citizen, the investigation revealed that he and his wife were residing in the U.S. illegally. When SBA requested evidence of naturalization, the husband presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to an SBA official. He called his wife and asked her to withdraw half of the bribe amount from their account and meet him to exchange the cash. He then paid the \$2,500 cash to an SBA official, requested that the loan be closed without delay, and agreed to pay the remaining \$2,500 after the loan closing. The OIG is conducting this joint investigation with the Department of Homeland Security (DHS) Immigration and Customs Enforcement. The Illinois District Office provided significant cooperation in this case.

Former Employee Sentenced for Role in Internet Scam. On April 10, 2007, a former employee of an internet-based company located in Virginia Beach, Virginia, was sentenced to 36 months in prison and three years supervised release, and was ordered to pay restitution of \$2,755,281. She previously pled guilty to one count of mail fraud and one count of engaging in a monetary transaction in criminally derived property. A co-conspirator in the case has also pled guilty and is awaiting sentencing. For a fee of at least \$3,500, the company promised, among other things, to provide a comprehensive business plan and an SBA-guaranteed loan to its customers. Investigative efforts disclosed that the business plans were worthless and that only one or two businesses ever received an SBA-guaranteed loan. It is estimated that over 900 people fell victim to the scam. This case was based on a referral from the Richmond District Office. The OIG conducted this joint investigation with the U.S. Postal Inspection Service and the Internal Revenue Service (IRS).

## ***Disaster Loan Program***

OIG Issues Report on Acceptance of Disaster Loan Disbursements. On April 17, 2007, the OIG issued a report, *Audit of Borrower Acceptance of Disbursements*. The objective of this audit was to determine if SBA, as part of its expedited processing of approximately 90,000 loans approved for Hurricanes Katrina, Rita, and Wilma, disbursed loan proceeds contrary to the wishes of the borrowers. The

audit identified 7 instances, out of 208 borrowers reviewed, where disbursements were made contrary to a borrower's wishes. The audit also found that SBA established daily production goals and distributed awards to recognize and reward employees who made the largest number of disbursements. These daily production goals and associated awards may have inappropriately influenced loan officers to disburse funds that borrowers did not want. The report contains two recommendations addressed to the Associate Administrator for Disaster Assistance: (1) when addressing future disbursement backlogs where borrowers are undecided or have not been in recent contact, an attempt should be made to contact the borrower prior to disbursement to determine whether disaster funds are still needed, and (2) in future expedited processing campaigns, performance goals and associated awards should be based on reasonable time frames that consider customer service and legal requirements. SBA generally agreed with the report's findings and recommendations.

Hurricane-Related Indictments Issued. In conjunction with the Hurricane Katrina Fraud Task Force, the OIG has reviewed numerous allegations dealing mostly with false statements regarding residency at time of the Gulf Coast hurricanes, nonexistent property damage to homes or businesses, or misuse of loan proceeds. The following indictments were issued or unsealed during April 2007.

- On March 6, 2007, a husband and wife were indicted on one count of false, fictitious, or fraudulent claims, three counts of false statements, two counts of theft of public funds, and one count of civil forfeiture. The indictment, which was sealed until April 16, 2007, alleges that the couple provided false statements in an attempt to receive Gulf Coast hurricane benefits to which they were not entitled. Based on their false statements on the loan application and during the loss verification inspection, the couple received \$50,000 of an approved \$112,500 loan from the SBA. They stated that their primary residence was in Mississippi when, in fact, they lived in Florida and were not affected by any of the Gulf Coast hurricanes. They also received \$6,706 from the Federal Emergency Management Agency (FEMA). The SBA OIG is conducting this joint investigation with the DHS OIG and the Federal Bureau of Investigation (FBI).

- On April 3, 2007, based on a joint investigation with the DHS OIG, Department of Agriculture (USDA) OIG, and the Mississippi State Auditor's Office, a husband and wife were indicted on one count of false, fictitious, or fraudulent claims, four counts of false statements, two counts of wire fraud, and one count of frauds and swindles. The indictment charges that the couple provided false statements regarding the location of their primary residence and their marital status to the affected agencies in an attempt to receive duplicate benefits. They received \$12,000 in disaster funds from the SBA. This case was referred by the Department of Homeland Security OIG.
- On April 3, 2007, based on a joint investigation with DHS OIG, USDA OIG and the FBI, an individual was indicted on one count of false, fictitious, or fraudulent claims, two counts of false statements, two counts of wire fraud, and three counts of frauds and swindles. The indictment charges that he falsely stated to the affected agencies that his rented room at his parents' house had sustained damage as a result of Hurricane Katrina when, in fact, it had not. He was denied an SBA loan based on his credit history, but received FEMA funds and food stamps based on the same false statements. This case was referred by the DHS OIG.

### *Statutory/Regulatory/Policy Reviews*

In an effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on six Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG, Eric M. Thorson, Inspector General.

The OIG has established an e-mail address ([oig@sba.gov](mailto: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:

Beverly Menier, SBA OIG  
 409 Third Street SW., 7<sup>th</sup> Floor  
 Washington, DC 20416  
 E-mail: [OIG@SBA.GOV](mailto:OIG@SBA.GOV)  
 Telephone number (202) 205-6586  
 FAX number (202) 205-7382

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