



## Office of Inspector General Small Business Administration

December 2001 Update

### *Business Loan Programs*

Ohio Pet Store President Convicted of Bank Fraud and Making False Statements. The president of a pet store in Stow, Ohio, was convicted on October 24, 2001, on one count of **bank fraud** and one count of **making false statements to SBA** in connection with his \$100,000 LowDoc loan. The jury found that he concealed both an outstanding promissory note and information regarding his criminal history. During the application process, he did not disclose an outstanding promissory note he had previously secured with the former owner of the pet store. The outstanding balance of the promissory note at the time he applied for the SBA-guaranteed loan was approximately \$200,000. He also failed to report his substantial criminal history. He had been arrested on multiple offenses and charged with various crimes. OIG initiated this investigation based on a referral from SBA's Cleveland District Office.

Arizona Management Company President and Secretary-Treasurer Plead Guilty to Mail Fraud and Making False Statements. Two central Arizona men pled guilty to one count of **mail fraud** and two counts of **making false statements** on December 6 and December 7, 2001. Pursuant to their plea agreements, the Government agreed to dismissal of the other seven charges on which they previously were indicted in connection with a \$1 million SBA-guaranteed loan. The defendants had been

charged with submitting fraudulent documents to obtain a loan from a non-bank participating lender to buy two fast-food restaurants. The first defendant's sentencing is scheduled for April 8, 2002, and the second defendant's sentencing is scheduled for April 15, 2002. OIG conducted this investigation jointly with the Federal Bureau of Investigation (FBI) based on a referral from the Auditing Division.

Former Co-Owner of Connecticut Dry Cleaning Business Pleads Guilty to Making a False Statement to a Bank. The former co-owner of a dry cleaning business in Southington, Connecticut, pled guilty on December 11, 2001, to one count of **making a false statement to a bank**. In April of 1998, the business obtained a \$100,000 SBA-guaranteed loan through a Connecticut bank. The defendant stated to the bank that she and her co-owner had previously purchased \$98,000 of new equipment using their own funds and needed the \$100,000 for working capital. The investigation revealed that the defendant submitted false documents to the bank, including phony checks and invoices, representing their capital injection into the business. Further, 1 month prior to obtaining the SBA loan, the defendant and her co-owner had obtained an \$85,000 loan through a private lender using a different company name with which they purchased various pieces of equipment. The private lender was given first lien position on the collateral, but the business did not disclose this debt relationship in their SBA loan application. They then pledged the same

equipment to the bank. The business defaulted on the SBA loan in November of 1998. The bank and SBA were unable to recover any of their loss because the private lender had obtained and sold the equipment. OIG initiated the investigation as a result of a referral from SBA's Connecticut District Office.

Arizona Couple Pleads Guilty to Money Laundering and Making Material False Statements. An Arizona husband and wife team pled guilty on December 20, 2001, to one count of **money laundering** and **making material false statements**, respectively. As part of their plea agreements, the Government agreed to dismiss the other 14 felony charges and the forfeiture count in their indictment. OIG's joint investigation with FBI was based on a referral from SBA's Arizona District Office. It showed that the husband and wife, operating as a business brokerage firm in Phoenix, Arizona, submitted fraudulent documents to private lenders in order to obtain financing for clients seeking business acquisition loans guaranteed by SBA. The couple allegedly came up with a "no money down" plan for clients interested in purchasing a business at 100 percent financing who would have otherwise not qualified for the loan or lacked the funds for a down payment and cash injection as required for approval of the SBA-guaranteed loans. The scheme inflated the purchase price that covered the actual selling price plus the down payment or cash injection. To cover up the scheme, the couple arranged for the buyer to obtain a real estate license and listed as an asset on the borrower's SBA paperwork the commission that the borrower would be earning for the sale of the business, which equaled their required down payment. In order for the scheme to work, the couple also arranged for third party injectors to loan, just before closing, the required down payment to the borrowers who needed to prove to SBA that they had the cash injection. The records indicated that the couple disguised receipt of the down payment from the third party injector as if the buyer had supplied the funds for the down payment. After the loan closed, the couple

received an inflated commission and arranged for a portion of the commission that was loaned by the third party injectors (plus a fee of about 5 percent for a few days' use of the third party's money) to be wired back to the third party. The investigation found approximately \$2.9 million in loans brokered by the couple to small-business owners in Arizona. At present, approximately \$2.5 million appear to be uncollectible, and SBA expects losses as a result. The couple's sentencing is set for March 18, 2002.

### *Small Business Investment Company Program*

New York Small Business Investment Company President Sentenced for Embezzlement. The president of a now-defunct New York City small business investment company (SBIC) was sentenced on December 21, 2001, to 2 months incarceration and 3 years supervised release (the first 6 months under home confinement). He was also ordered to pay \$953,000 in restitution to SBA. He previously pled guilty to one count of **embezzlement** of SBIC assets. The count to which he pled guilty involved the January 15, 1992, illegal transfer of a New York property valued at \$361,296 from the SBIC without consideration to another company wholly owned by him. This and other actions of the defendant caused a loss to SBA of over \$1 million. This investigation originated from a referral from SBA's Office of General Counsel.

### *Office of Inspector General*

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The activity Update is produced by SBA/OIG,  
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