



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

December 2007 Update

### *Business Loan Programs*

Ongoing Investigation Results in Indictments. The following case is part of an ongoing investigation relating to a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans.

- On November 27, 2007, two Michigan businessmen were indicted in the Eastern District of Michigan. Both were named in six counts of an eight count indictment charging them with conspiracy, false statements, and aiding and abetting. The first businessman was named in two additional counts charging false claims of citizenship. On December 17, 2007, special agents of the OIG and the U.S. Secret Service arrested both men without incident. The indictment relates to an \$880,000 SBA-guaranteed loan made by the lender to one of the two men. The indictment charged that the other businessman (the seller) made or caused to be made a false "gift affidavit" affirming that the first businessman (the purchaser) received a gift of \$300,000, the amount of the required equity injection. The indictment further charges that the purchaser falsely claimed that he was providing the \$300,000 equity injection from his personal liquidity. This investigation is being conducted jointly with the U.S. Secret Service. Further indictments and arrests are expected.

Former Escrow Officer Sentenced. On November 30, 2007, a former escrow officer for a Texas title company was sentenced to 96 months in prison followed by five years of supervised release. Following a two-week trial in February 2007, she was convicted of one count of conspiracy, one count of conspiracy to commit money laundering, one count of bank fraud, and four counts of money laundering.

The charges arose from her involvement in a multi-million dollar scheme to defraud the SBA and launder hundreds of thousands of dollars in loan proceeds. Evidence presented during the trial established that she and other co-conspirators devised a fraudulent land flip scheme to obtain an SBA-guaranteed loan in the amount of \$2.4 million from a Houston-area federally insured bank to fund the purchase of a warehouse. Once the loan was funded, she and her co-conspirators laundered approximately \$473,000 of the proceeds. The OIG conducted this joint investigation with the Texas Comptroller of Public Accounts, Criminal Investigation Division.

Former Business Owner Sentenced. On December 6, 2007, the former owner of a dump truck hauling business in Tacoma, Washington, was sentenced to two years in federal prison and five years supervised release. In addition, he was ordered to forfeit the funds from an investment account (approximately \$68,000) and ordered to pay a monetary judgment of \$157,755.52, which is equal to the amount he received by illegally converting collateral. In July 2007, he pled guilty to one count each of bank fraud, bankruptcy fraud, and evasion of payments to the Internal Revenue Service (IRS). The investigation found that he made false statements to the SBA and a federally-insured financial institution regarding his company's tax liability in order to obtain a \$750,000 SBA-guaranteed loan. He hid the proceeds from converted collateral and evaded payments to the IRS for past due payroll taxes by failing to disclose assets. The investigation also disclosed that he became a police officer during the investigation, but he was terminated when the police department became aware of the investigation. This investigation was referred by the participating lender and was worked jointly with the Federal Bureau of Investigation (FBI) and IRS.

#### Former Illinois Finance Company Employee Indicted.

On December 12, 2007, a former finance company employee was indicted on one count of wire fraud. The wire fraud charge was filed in connection with a scheme to induce a lending company and the SBA to approve an \$850,000 SBA-guaranteed loan. The indictment alleges that she sent, via facsimile transmission, a falsely inflated bank account statement and a fraudulent gift affidavit to the lender in order for the borrower to meet the equity injection requirements of the SBA loan. The indictment also contains a forfeiture stipulation that demands she forfeit at least \$843,379, which is the current loss amount of the SBA loan. The finance company was in the business of brokering small business loans guaranteed by the SBA for businesses seeking to purchase gas stations, convenience stores, and other properties. As a result of this investigation, the former president and owner of the finance company has also been indicted. The investigation revealed that the finance company brokered approximately 40 SBA-guaranteed loans using the same lender. An extensive review of the loan documentation for these loans disclosed that fraudulent equity injection documentation was provided to the lender in at least 25 separate instances. The OIG is conducting this investigation jointly with the FBI.

#### California Company Owner Indicted.

On December 11, 2007, the owner of a California cowhide company was indicted on seven counts of bank fraud and one count of loan fraud. He managed and controlled two cowhide companies and used both companies to export cowhide to Korea and China. In addition, he appears to have started another business around June 2005, a company to import frozen seafood to the United States. After several years of lost revenue, this company failed, and he was forced to borrow funds from his other businesses to repay the debts. In order to receive more cash advances from an SBA Export Working Capital line of credit, he allegedly altered the companies' purchase orders, supplier invoices, and contracts. The indictment also alleges that he falsified one company's financial statements and tax returns. This matter was referred to the OIG by the lender.

## *Disaster Loan Program*

#### Louisiana Woman Enters Guilty Plea.

On December 5, 2007, a Louisiana woman agreed to waive indictment and enter a plea of guilty to a criminal information charging her with three counts of false claims. The investigation disclosed that she falsified her primary residence when applying for Federal Emergency Management Agency benefits, food stamps, and a \$142,600 SBA-guaranteed loan. SBA disbursed \$121,000 of the loan. The SBA OIG is conducting this joint investigation with the Louisiana State Police, the Department of Homeland Security OIG, and the U.S. Department of Agriculture OIG.

#### Florida Man Indicted.

On December 11, 2007, a Florida man was indicted in U.S. District Court for the Northern District of Florida on two counts of false statements. The indictment alleges that he provided false statements on his application for disaster assistance by claiming that he had sustained damage to his second-floor apartment located in the French Quarter of New Orleans. He received an SBA disaster loan of \$40,000 for personal property losses. The OIG's investigation determined that the apartment complex where he resided was in an area that did not flood and, therefore, his unit sustained little or no damage as a result of Hurricane Katrina.

## *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 10 Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

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