



Office of Inspector General U.S. Small Business Administration

June 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 following case is part of this ongoing investigation, which is being conducted jointly with the U.S. Secret Service.

- On June 27, 2007, the former president of a gas station and convenience store in Detroit, Michigan, pled guilty to one count of conspiracy for plotting with his brother to fraudulently obtain a \$990,000 SBA-guaranteed loan. The borrower and his brother were previously charged in a three count indictment with conspiracy, false statements, and aiding and abetting. The investigation had shown that the brothers conspired with others to fraudulently qualify the brother, president of a different gas station, for the SBA-guaranteed loan that was used to purchase the borrower's gas station. The object of the scheme was actually to refinance and consolidate delinquent debts owed by the borrower's financially troubled gas station and convenience store, using proceeds from the loan made to the "straw buyer", the brother's gas station. The conspiracy was furthered through the use of a false sales agreement, an inflated purchase price, and a bogus \$240,000 equity injection. The loan to the brother's gas station defaulted, and SBA paid a claim of \$719,106.84. As previously reported, the brother has also pled guilty in this case.

Former Hotel Owner Indicted. On June 1, 2007, the former owner of an Inverness, Florida hotel was sentenced to three years supervised release, six months home detention, and \$269,000 restitution. The former hotel owner executed an SBA Form 912, Statement of Personal History, when he applied for a 7(a) business loan but neglected to indicate that he was a convicted felon and had been sentenced to two years probation for a prior drug conviction. This case was initiated based on a referral from SBA's National Guaranty Purchase Center.

Disaster Loan Program

CPA Indicted. On June 7, 2007, a Certified Public Accountant was indicted on three counts of making false statements relating to loan and credit applications. The indictment charges that she knowingly made false statements to both a credit union and a bank located in Baton Rouge, Louisiana, for the purpose of influencing the financial institutions to approve four loans totaling approximately \$3 million. She allegedly impersonated an SBA employee and falsely represented that SBA disaster loans had been approved and committed for her employer. Due to investigative efforts, only \$5,000 of the \$3 million was disbursed. This case was referred by the Department of Homeland Security. SBA OIG is conducting this joint investigation with the United States Secret Service.

OIG Issues Report on an Audit of the Liquidation of Disaster Loans. On June 1, 2007, the OIG issued a report, *Audit of the Liquidation of Disaster Loans*. The objective of the audit was to determine if SBA maximized its recovery of delinquent disaster loans through collateral liquidations and/or by referral to the U.S. Treasury. The audit determined that that SBA did not maximize recovery on at least \$360.3 million sent to SBA's Liquidation Center and the U.S. Treasury. Specifically the OIG found that SBA:

- (1) Did not actively pursue a projected \$261.5 million in delinquent loans because of conflicting guidance in its operating procedures;
- (2) Did not transfer a projected \$24.7 million in delinquent loans to Treasury because the loans were improperly coded; and
- (3) Did not refer to Treasury Servicing all responsible parties on a projected \$74.1 million of charged-off loans because loans were not coded properly and loan details, such as the name and identification numbers, were not entered into the Portfolio Management Treasury Offset System (PMT) database.

The OIG recommended that SBA revise Standard Operating Procedure (SOP) 50 51 2, Loan Liquidation and Acquired Property, and clarify existing guidance to better explain the requirements of the Debt Collection Act. The OIG further recommended that SBA implement controls to ensure that the liquidation of collateral and assets are actively pursued to the fullest extent possible at the Disaster Loan Liquidation Center and that those loans are properly coded and transferred to Treasury and/or the center in accordance with the Debt Collection Act.

Loan Recipient Pleads Guilty. On June 4, 2007, a loan recipient pled guilty in U.S. District Court for the Southern District of Mississippi to one count of false, fraudulent claims, and two counts of false statements. The loan recipient was indicted as a result of an SBA OIG investigation conducted jointly with the Department of Homeland Security (DHS) OIG, U.S. Department of Agriculture (USDA), and the Mississippi State Auditor’s Office. The loan recipient fraudulently represented an address on disaster assistance applications filed with all four involved agencies as being his primary residence in order to receive funds to which he was not entitled. Based on these false statements, he was approved for a \$78,900 loan from SBA, of which an initial \$10,000 was disbursed. He also received \$9,558 from the Federal Emergency Management Agency, and \$301 from USDA. 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 15 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.

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