



# Office of Inspector General

November 2013



## Business Loans

### ***Texas Couple Sentenced***

On November 1, 2013, a Texas couple was sentenced following their guilty pleas to one count of conspiracy. They were each sentenced to 12 months and one day in prison followed by three years of supervised release. They were also ordered to pay joint restitution of \$281,673, which is the full outstanding balance of the SBA loan. The investigation revealed that the couple received a \$420,000 SBA-guaranteed loan to purchase a convenience store. The husband claimed that the majority of the cash injection was coming from the sale of a different convenience store that he previously owned. In reality, the couple had depleted the majority of those funds prior to closing on the loan for this store. The husband then had the wife secure lines of credit (LOC) from two different banks using different company names. At least \$91,269 of the \$146,359 cash injection was derived directly from these LOC. In their dealings with the SBA lender, they did not disclose these additional debts, and certified the accuracy of false personal and business financial statements. The couple later filed for bankruptcy and listed the above referenced LOC as part of their \$456,806 in unsecured debts.

### ***Illinois Real Estate Attorney Indicted on Wire Fraud***

On November 7, 2013, an Illinois real estate attorney was indicted on two counts of wire fraud in connection with two residential mortgage-fraud schemes with a combined value of \$492,303. The investigation revealed that the attorney conspired with the seller and a buyer to falsify the buyer's down payment. He

then prepared a bogus will for a man already deceased, which purported to leave a \$200,000 inheritance to the man's son, who was the buyer. The attorney signed the will as the father's attorney and as the executor of the father's estate. He also represented the buyer in these real estate transactions and forwarded these documents to the lender as evidence of the source of the buyer's down payments. The OIG's Early-Fraud Detection Working Group referred this case for investigation. It is part of an ongoing investigation of loan-agent fraud in connection with multiple residential and commercial loan-fraud schemes. This is a joint investigation with the U.S. Postal Inspection Service (USPIS).

### ***Loan Packaging Firm Reaches Civil Settlement Agreement for \$1,125,000***

On November 14, 2013, a civil settlement agreement was reached with a Texas business for \$1,125,000. The civil claims involved the company submitting and/or causing to be submitted false information relating to 7(a) loans guaranteed by the SBA. The business routinely packaged loan applications and other materials on behalf of individuals seeking to purchase lube centers and dry cleaning stores from the business. The business, acting through an employee, fraudulently induced the SBA to guarantee loans for purchasers by representing to lending institutions and the SBA that the purchasers and borrowers provided the required cash injection payment when they had not. For each loan closed, the employee received one to three percent of the loan value. The employee pled guilty to one count of conspiracy to commit bank fraud and was sentenced to 36 months in prison,

36 months of supervised release, and ordered to pay restitution of \$8,581,970. This is a joint investigation with the Federal Bureau of Investigation.

### ***Maryland Man Indicted for Fraud***

On November 19, 2013, a Maryland man was indicted on one count of conspiracy to commit bank fraud, one count of bank fraud, one count of aiding and abetting, and one count of criminal forfeiture. The indictment alleges that he, and others, encouraged prospective borrowers to use the services of a particular company to apply for business loans through SBA's Section 7(a) program. The men, and others, are alleged to have falsely represented the ownership of the small businesses and the amounts of the equity injections, i.e. the amount of their own money that borrowers must pay before they qualify for a loan. This is a joint investigation with the FBI and the USPIS.

### ***Former Missouri Bar Owner Pleads Guilty***

On November 21, 2013, a former Missouri bar owner pled guilty to a superseding information charging him with four counts of aiding and abetting the misapplication of bank funds. According to the superseding information, he aided and abetted the former vice-president of a bank, in connection with four SBA-guaranteed loans that the vice president made to the bar owner and his daughter's business. While the stated purpose of these loans was for working capital, they were used to pay the bar owner's delinquent debt at the bank. They were also used to conceal the issuance of unfunded cashier's checks at the bank and to benefit unrelated businesses and per-

sons who held accounts at the bank. The bar owner is one of eighteen people charged in a complex conspiracy to defraud the bank and the SBA. To date, thirteen of the eighteen defendants have pled guilty, including the bar owner's daughter who was sentenced to three years of probation. This is a joint investigation with the FBI.

***President of Michigan Construction Company Pleads Guilty in \$1.1 million Fraud***

On November 22, 2013, the president of a Michigan construction and management firm pled guilty to a single count superseding information. The man pled guilty to misprision of a felony for knowing that others made false statements on an application for an SBA-guaranteed loan for \$1.1 million. The loan was allegedly for the purchase of an automobile service center. The loan defaulted and was charged-off for \$789,186. The man knew of the false statements made on the loan application but remained in his native country to conceal the information from U.S. authorities. This is a joint investigation with the U.S. Secret Service and the Department of Homeland Security, Immigration and Customs Enforcement.

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***President of Michigan Construction Company Pleads Guilty in \$1.1 million Fraud***

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***California Woman Pleads Guilty to False Statements***

On November 25, 2013, a California woman pled guilty to one count of false statements to a federally insured financial institution. Initially, investigators asked the woman—a former “new accounts representative” at a bank—to provide information about her involvement in the deposit of fraudulently obtained SBA loan proceeds into a business account at the bank. During the course of the investigation, investigators discovered that she had stolen approximately \$362,875 from seven Certificate of Deposit accounts at the bank. This is a joint investigation with the FBI.

***Washington Man Pleads Guilty to Bank Fraud***

On November 27, 2013, a Washington man pled guilty to a Criminal Information charging him with one count of bank fraud. This investigation is based upon a referral from a bank that self-reported potential fraud on a \$1,853,000 SBA-guaranteed business loan. The man, a former loan officer, made a business loan to a market located in Edmonds, Washington. The investigation revealed that man—who was also an owner of the market—submitted false information in order for the bank to approve and disburse the SBA loan to the market. To execute this scheme, the former bank loan officer: 1) used false personal information to hide his ownership in the market from the bank, 2) used a real estate agent to

amend the market's appraisal from \$1.7 million to \$2.1 million to gain additional funding, and 3) falsified the required equity injection of \$385,000. This is a joint investigation with the Federal Deposit Insurance Corporation, OIG.

**Government Contracting**

***8(a) Firm and Owner Enter into \$300, 212 Settlement Agreement***

On November 5, 2013, the Civil Division of the U.S. Attorney's Office, Western District of Pennsylvania, executed a Settlement Agreement for \$300,212, between the SBA and a graduated 8(a) firm and its owner. The Government alleged that the owner had participated in the SBA 8(a) program as the qualifying disadvantaged individual in the 1980s, but had failed to disclose this fact in 2001 when applying as the disadvantaged individual seeking 8 (a) status for her company. The Government alleged this was a violation of the One Time Eligibility Rule that would have rendered the firm ineligible to participate in the 8(a) program because the owner had exhausted his/her eligibility to serve as a disadvantaged individual. This is a joint investigation with the FBI.

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## Disaster

### ***Texas Man Sentenced for Forgery Related to Hurricane Katrina***

On November 8, 2013, a Texas man was sentenced to three years' probation and ordered to pay restitution of \$34,965, as a result of his plea to one count of forgery of contracts, deeds, or powers of attorney. This case was predicated on a referral received from the SBA Disaster Processing and Disbursement Center. The investigation revealed that the man forged signatures of his estranged wife and others on SBA loan documents in order to obtain two SBA disaster loans in connection with Hurricane Katrina. The SBA approved a \$95,600 home loan to repair his alleged residence and a \$71,800 business loan to repair the other half of the same duplex, which he claimed as rental property. He then used the loan proceeds for personal living expenses (i.e. hotel rooms, dining, a vehicle purchase, gas, etc.). None of the money was used to repair the real property, which actually belonged to his estranged wife. The SBA suffered a loss of approximately \$54,000.

## Agency Management

### ***Audit Report 14-03***

On November 19, 2013, the OIG issued Audit Report 14-3, *Opportunities Exist to Further Improve Quality and Timeliness of HUBZone Certifications*. This report presents the results of the OIG's audit to determine whether the Small Business Administration's (SBA) HUBZone program certification process provides assurance to limit program certification to eligible firms.

The OIG found that in recent years, the HUBZone certification process has been reengineered from self-certification to a full document review and that the SBA properly certified 9 of 12 firms reviewed. However, the OIG identified three firms the SBA certified even when the firms did not meet all of the eligibility criteria. Ineligible firms that obtained certification distorted the small business HUBZone goaling numbers by at least \$1.3 million and possibly took contracting opportunities away from eligible firms. Additionally, certifying ineligible firms detracted from the economic benefits the program intends to promote in the disadvantaged HUBZone areas. The SBA also did not meet the required 30-calendar day timeline for any of the 12 firms we reviewed, nor did it meet the proposed deadline of 90 days for five firms. For firms who are certified, the amount of time the SBA takes to review the application directly inhibits their opportunities to obtain federal contracts. The OIG recommended three actions directed to the Office of Government Contracting and Business Development to improve the HUBZone certification process and decrease the likelihood of ineligible firms receiving HUBZone certification.

#### **Office of Inspector General**

***Peggy E. Gustafson***

**Inspector General**

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To promote integrity, economy, and efficiency, we encourage you to report suspected instances of fraud, waste, abuse, or mismanagement in any SBA program to the OIG Hotline\* at

<http://www.sba.gov/office-of-inspector-general/2662>

Or call the OIG Hotline toll-free, at (800) 767-0385

*\*In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.*

We welcome your comments concerning this update or other OIG publications.

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