



Office of Inspector General

January 2014



Business Loans

Director of Florida Firm Pleads Guilty

On January 9, 2014, the director of a Florida firm pled guilty to wire fraud and aggravated identity theft after previously having been indicted for wire fraud, theft, or bribery in programs receiving federal funds, and aggravated identity theft. As a local intermediary in the SBA Microloan program, the firm received large loans from the SBA and in turn made smaller loans to small businesses. The director provided escrow agreements with forged signatures and false bank statements to the SBA to induce it to make a \$200,000 loan and a \$550,000 loan to the firm. Only \$192,500 of the second loan was disbursed. The director also submitted false information indicating that the firm had made 21 local small loans using the Agency's loan proceeds. In reality, the firm only provided a total of \$25,000 to two businesses, one of which was owned by the director and the other controlled by her boyfriend. She also submitted false reconciliation statements and bank statements to the SBA. The investigation determined that \$392,500 was disbursed to the firm, of which about \$362,000 was transferred to the bank account of another company controlled by the director. She and the second firm used the SBA loan proceeds to purchase an apartment building in Tallahassee, Florida. This is a joint investigation with the Internal Revenue Service Criminal Investigations (IRS CI) and the Department of Justice.

Connecticut Man Guilty of Forgery

On January 13, 2014, a Connecticut man was found guilty of second-degree forgery and sentenced to 25 months. He was previously arrested for forging state and business documents in furtherance

of fraudulent activities. The man had submitted false documentation to his former small business employer indicating that the SBA had approved a loan for the small business. He used a falsified SBA letterhead and forged the signature of an SBA official to convince the business to pay him for obtaining the fictitious loan. This is a joint investigation with the Bethel (CT) Police Department.

California Man Pleads Guilty

On January 22, 2014, a California man pled guilty to wire fraud in connection with a scheme in which he and at least three others allegedly defrauded an SBA lender of proceeds from loans intended for the purchase of two gas stations. The scheme occurred on or about August 2013, and the SBA-guaranteed loans totaled approximately \$4.5 million. The defendant and another man formed a petroleum company. The men—and others—allegedly recruited a former attorney with a good credit history to pose as the petroleum company's owner so that the lender would not discover the second man's poor credit standing and previous indictment. The parties allegedly agreed that after the loans to purchase the gas stations were completed, ownership of the firm would be transferred to the man with the poor credit, without the bank's knowledge. The attorney would remain the "face" of the company and receive \$100,000 payment plus an additional \$3,000 per month. Finally, the defendant and others, allegedly represented to the lender that the attorney and the petroleum company were making a down payment of \$2.1 million from their own funds as part of the purchase of the two gas stations. The evidence revealed that there was no down payment. After the loans were funded,

the defendant received \$250,000. This was a joint investigation with the Federal Bureau of Investigation.

Former Executive Vice President of Missouri Bank Pleads Guilty

On January 24, 2014, the former executive vice president of a Missouri bank pled guilty to conspiracy to defraud the United States. He had submitted false information to the SBA in connection with a defaulted \$1.6 million SBA guaranteed loan to a borrower doing business as a Missouri firm. The loan application contained materially false information in two respects. First, the borrower was identified as the operator of the Missouri company when he had actually moved to North Carolina to work for a restaurant chain in October 2005. As a result, he no longer participated in the day-to-day management of the Missouri business. Second, income figures for 2005 stated that the Missouri firm's gross sales were approximately \$628,000 when the actual figure was approximately \$310,000. After receiving the \$1.6 million SBA loan, the Missouri company continued to struggle and was 85 days past due within a few months. To inject cash into the Missouri firm, the bank's executive vice president, in conjunction with others, originated a fraudulent loan to another person. The loan proceeds were disbursed to other defendants in this investigation, including the alleged operator of the Missouri company. This is a joint investigation with the FBI.

Owner of Missouri Consulting Business Pleads Guilty to Conspiracy

On January 30, 2014, the owner of a Missouri consulting business pled guilty to conspiracy to defraud the United States. As a business consultant who

helped struggling businesses obtain financing, he conspired with the executive vice president of a bank to originate nominee loans to provide funding for such firms. In November 2006, and prior to the execution of a promissory note, the executive vice president initiated a \$125,000 deposit into the consulting business owner's account at the bank, which cured an overdraft of \$21,508. The remaining portion of the money was disbursed to make delinquent loan payments for the consulting firm and another business, and was distributed to other defendants. Approximately two weeks later, the bank executive vice president originated and executed the paperwork for the \$125,000 loan. The consulting business owner signed a third person's name to the promissory note. That person had consented to the use of his name and credit to obtain the loan. Although the stated purpose of the loan was to pay business expenses and a deposit on real estate, the loan was actually made to benefit others. This is a joint investigation with the FBI.

Former Owner of a Missouri Appliance Business Pleads Guilty

On January 14, 2014, the former owner of a Missouri appliance business pled guilty to aiding and abetting the misapplication of bank funds, and sentenced to 24 months of probation. The owner had aided and abetted an executive vice president of a bank by diverting loan proceeds

from his business to a restaurant owned by his daughter. This is a joint investigation with the FBI.

Former President of a Missouri Wireless Firm Pleads Guilty

On January 23, 2014, the former president of a Missouri wireless firm pled guilty to using a false document in connection with a defaulted \$695,000 SBA loan to his business. He had applied for an SBA guaranteed loan by knowingly making a material false document. Specifically, he stated that seven individuals owned shares of his firm in the aggregate of 20 percent of the total value of the company when, in reality, none of these individuals owned any interest in or portion of his business. The SBA loan defaulted within a few months after approval. This is a joint investigation with the FBI.

Government Contracting

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Agency Management

Audit Report 14-09: Purchase Reviews Allowed \$3.1 Million in Improper Payments on 7(a) Recovery Act Loans

On January 29, 2014, the OIG issued Audit Report 14-09, *Purchase Reviews Allowed \$3.1 Million in Improper Payments on 7(a) Recovery Act Loans*. This report is the second in a series resulting from the OIG's audit of purchased 7(a) Recovery Act loans and presents the results of an audit of the SBA purchase reviews on nine additional 7(a) Recovery Act Loans. The OIG found that three 7(a) Recovery Act loans purchased by the SBA were not originated and closed in accordance with SBA rules and regulations. The deficiencies included loans approved and disbursed by lenders with questionable eligibility, inadequate assurance of repayment ability, and equity injection issues. The three loans had inappropriate or unsupported disbursements of approximately \$3.1 million.

The OIG recommended that the SBA seek recovery of \$3.1 million from the three lenders associated with these loans on the guaranties paid by the SBA for the loans (less any amounts received from liquidation). The SBA agreed with the OIG's recommendations and each case is undergoing the Office of Capital Access' (OCA) Denial Review Process, with appropriate action to be taken upon final resolution.

**Office of Inspector General
Peggy E. Gustafson
Inspector General**

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.

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