



Office of Inspector General U.S. Small Business Administration

September 2011 Update

Business Loan Programs

Documentation Deficiencies in 7(a) Recovery Act Loans

On September 30, 2011, the OIG issued the third in a series of reports resulting from an ongoing audit of purchased 7(a) Recovery Act loans. This [report](#) identifies documentation deficiencies found in twenty-four, or 40 percent, of a sample of sixty 7(a) loans reviewed, which resulted in inappropriate or unsupported loan approvals of approximately \$14.2 million. The documentation in the loan files was inadequate to ensure the loans were made to creditworthy borrowers, met SBA's eligibility criteria, and had adequate evidence of equity injection, use of proceeds, or Internal Revenue Service (IRS) verification. Based on the sample results, the OIG projected that at least 1,996 7(a) Recovery Act loans were not originated and closed in compliance with SBA's policies and procedures, resulting in at least \$869.5 million in inappropriate or unsupported loan approvals.

Michigan Business Owner Pleads Guilty

On June 21, 2011, a Plymouth, Michigan business owner pled guilty to a Superseding Information charging him with one count of false statements. The subject applied for and received SBA-guaranteed lines of credit from three separate institutions, totaling approximately \$110,000. All three loans subsequently defaulted, and SBA paid the lenders the guaranteed portions of the loans totaling approximately \$79,000. The subject's guilty plea relates to making a false statement on one of the three loan applications when he stated that neither he nor his business had previously received an SBA loan. This is a joint investigation with the United States Secret Service.

Utah Accountant Pleads Guilty

On September 1, 2011, a Sandy, Utah accountant and business president pled guilty in U.S. District Court for the District of Utah to one count of money laundering. The investigation revealed that he and his business partner recruited straw borrowers and used the borrowers' names and good credit to obtain four SBA loans and two regular bank loans totaling \$335,000. This

caused the straw borrowers, on the promise of future rewards, to submit documents indicating that they owned thriving businesses, when in fact, the businesses only existed on paper. This case was initiated based on a referral from the SBA Utah District Office and is a joint investigation with the Internal Revenue Service, Criminal Investigations Division (IRS-CID).

Former Bank Manager Sentenced

On September 29, 2011, a former bank manager was sentenced to 18 months in prison, 36 months probation, \$199,059.50 in restitution, and a \$100 special assessment fee in U. S. District Court for the District of New Jersey. The subject assisted in securing loans for a group of Korean nationals who were obtaining credit cards and loans, including SBA-guaranteed loans, from various lending institutions using false identities, documents, and business names. Specifically, the bank manager falsified the site visit form on behalf of a sham business with no physical location, thereby causing the bank to issue a \$100,000 SBA-guaranteed loan to the sham business. Ten loans totaling approximately \$800,000 have been identified as being brokered by the subject, with current losses on the loans estimated at approximately \$630,000. This is a joint investigation with the IRS-CID, the Englewood New Jersey Police Department, and the Bergen County Prosecutor's Office.

Disaster Loans

Mississippi Woman Sentenced

On September 7, 2011, a Mississippi woman was sentenced in U.S. District Court for the Southern District of Mississippi to 36 months' probation, \$53,790.11 in restitution to the Mississippi Development Authority, and a \$100 special assessment. The woman had pled guilty in June 2011 after an investigation revealed that she had claimed addresses on her applications for Hurricane Katrina disaster assistance that were not her primary residence in an attempt to fraudulently receive benefits from the affected agencies. As a result of the investigation, the subject was required to repay the remaining balance owed to the SBA on her disaster home loan of \$43,000. This was a joint investigation with the

U.S. Housing and Urban Development (HUD) OIG, the U.S. Department of Homeland Security (DHS) OIG, and the Mississippi State Auditor's Office.

Louisiana Church Pastor Indicted

On September 29, 2011, a church pastor was indicted in the Eastern District of Louisiana on one count of mail fraud and one count of theft of government funds. The investigation revealed that on September 10, 2005, the pastor applied for an SBA disaster loan on behalf of the church at which he was employed at the time. The initial loan amount of \$500,000 was for replacement of equipment and rebuilding the church, which sustained severe damage and flooding due to Hurricane Katrina. The pastor later requested a loan increase due to rising construction costs for the rebuilding portion. The SBA approved a \$463,900 loan increase for a total loan amount of \$963,900. The indictment alleges that instead of using the loan funds to reconstruct real estate and to rehabilitate or replace property that was damaged by Hurricane Katrina, the pastor used the funds to purchase two luxury vehicles, two pieces of real estate, certificates of deposit, designer clothing, fine jewelry, and other items for his personal use

Government Contracting & Business Development

Research Firm Agrees to Pay Civil Fines

On September 16, 2011, a research company agreed to pay the United States \$200,000 to resolve a civil case regarding its Historically Underutilized Business Zone (HUBZone) status. The SBA HUBZone program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. These preferences go to small businesses that obtain HUBZone certification by maintaining a "principal office" in a HUBZone and employing staff who live in a HUBZone. The firm represented that it qualified under the HUBZone program to receive government contracts when it bid on and received three Department of the Navy contracts. Additionally, the firm submitted claims for and received payment under these contracts from the government. The investigation determined that company was not qualified for the HUBZone program, as their principal office was not located within a HUBZone at the time it bid on and received these contracts.

Peggy E. Gustafson, Inspector General

The OIG has established an e-mail address, oig@sba.gov that we encourage the public to use to communicate with our office. We welcome your comments concerning this update or other OIG publications. To obtain copies of these documents please contact:

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