



Office of Inspector General U.S. Small Business Administration

August 2011 Update

Business Loan Programs

Material Deficiencies in Five 7(a) Recovery Act Loans

On August 25, 2011, the OIG issued the second [report](#) in a series of reports addressing purchased 7(a) Recovery Act loans. The report identified five early-defaulted loans that resulted in questioned costs of \$2.7 million and warranted immediate attention by the SBA. These loans were part of a judgmental sample of 25 Recovery Act loans of \$500,000 or more that were purchased as of September 30, 2010. The audit found that lenders and the SBA did not originate and close the five 7(a) Recovery Act loans in accordance with the SBA's rules and regulations, and commercially prudent lending standards. Further, SBA loan officers did not identify the deficiencies in three of the loans during their purchase reviews. Deficiencies identified in the five loans included: (1) inadequate assurance of repayment ability; (2) ineligible use of proceeds; (3) questionable eligibility; and (4) improper guaranty amount. Of the total \$2.7 million questioned in this report, we recommended recovery of approximately \$1 million. The remaining \$1.7 million is not recoverable due to deficiencies in the SBA's origination of the loans.

Texas Businessmen Indicted

On August 4, 2011, two men were indicted in U.S. District Court for the Eastern District of Texas on one count of conspiracy to commit arson and one count of use of fire to commit a felony and aiding and abetting. The indictment also charges them with conspiring to burn and/or torch three business structures for the purpose of fraudulently receiving insurance proceeds. In addition, one subject was also indicted on two counts of federal arson and aiding and abetting, and one count of false statements to a bank. The investigation revealed that he received an SBA-guaranteed loan in the amount of \$1,724,800, through a Houston, Texas bank for the construction of a restaurant and gas station in Mount Pleasant, Texas. According to the indictment, the subject knowingly made a material false statement on an SBA loan application for the purpose of influencing the actions of the SBA. He failed to disclose on his SBA Form 912, Statement of Personal History, that he had

been arrested 22 times. This is a joint investigation with the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

New Jersey Woman Pleads Guilty

On August 11, 2011, a New Jersey woman pled guilty to an Information charging her with one count of conspiracy to commit bank fraud, one count of possession of fifteen or more unauthorized access devices, one count of aggravated identity theft, and an agreement for civil forfeiture in the amount of \$1,230,546 in U.S. District Court for the District of New Jersey. The investigation revealed that an organized group of Korean nationals were obtaining credit cards and loans from various lending institutions using false identities, documents, and business names. Loan officers at various banks were also involved in the scheme. Many of the loans were SBA guaranteed. The woman, one of the leaders of the Korean group, brokered 33 loans totaling approximately \$1.8 million. Current losses on the loans are approximately \$1.3 million. This is a joint investigation with the Internal Revenue Service – Criminal Investigations Division, the Englewood New Jersey Police Department, and the Bergen County Prosecutor's Office.

North Carolina Man Pleads Guilty

On August 17, 2011, a man pled guilty in U.S. District Court for the Western District of North Carolina to a Bill of Information charging him with four counts of wire fraud. According to the Information, he engaged in a scheme to defraud certain financial institutions and the SBA out of at least \$132,500 by fraudulently submitting loan applications and documentation for SBA-guaranteed loans and then diverting the proceeds of such loans for unauthorized uses. This case was initiated by the OIG as a result of a referral from an SBA lender. This is a joint investigation with the U.S. Postal Inspection Service.

Texas Loan Broker Pleads Guilty

On August 18, 2011, a loan broker pled guilty in U.S. District Court for the Northern District of Texas to one count of conspiracy to commit bank fraud. The woman worked directly with 200 borrowers by instructing them

on how to prepare their loan paperwork and by obtaining from them the necessary financial records. On 45 of these loan packages, she represented to various financial institutions that the borrowers had made their required cash injections when they had not. She also instructed the borrowers to write checks to her company in the amounts of their required capital injections. She then photocopied and returned the checks to the borrowers and presented the copies at the closing as having been paid. Both she and the borrowers knew the checks would not be cashed, and in most cases, the borrowers did not have the funds in their accounts. For each loan closed, the broker would receive 1% to 3% of the loan value. To date, approximately \$8 million has been charged off by the financial institutions and the SBA, and an additional \$6.762 million is in liquidation. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Title Company Owner Sentenced

On August 16, 2011, in the Eastern District of Michigan, a title company owner in Dearborn, Michigan, was sentenced to 12 months and one day incarceration and ordered to pay \$5,977,941.57 in joint restitution. He had previously pled guilty to one count of conspiracy to commit wire fraud. The investigation disclosed that another broker recruited “straw buyers” and conspired with others to obtain SBA-guaranteed loans by means of false statements. The title company owner was also employed as a title agent for another company in Dearborn Heights, Michigan. The investigation disclosed that he knowingly falsified loan disbursements and equity injections on Department of Housing and Urban Development (HUD) Settlement Statements in furtherance of the conspiracy. Upon completion of closings, the fraudulent loan proceeds were wire transferred from an account held by his employer’s company to his own company. This is a joint investigation with the U.S. Secret Service.

Wisconsin Investment Firm Owner Signs Agreement

On August 25, 2011, a Wisconsin investment firm owner signed a Pre Trial Diversion (PTD) agreement in the Northern District of Illinois. As part of the PTD agreement, he admitted to participating in a fraud scheme perpetrated by his step-brother, a former SBA lender relations officer. The step-brother previously pled guilty to one count of wire fraud and is awaiting sentencing. The investigation revealed that the step-brother was responsible for resolving issues related to the charge-off of SBA business and disaster loans that were secured with real estate as collateral. His duties included determining the current market value of the properties, securing the loans, and determining if the assets could be recovered from SBA loan debtors. He was also

responsible for selling various delinquent loans to private investors and recommended selling delinquent loans for substantially less than they were worth to his step-brother and son-in-law without disclosing to the SBA the familial relationships involved or the true value of each loan. This is a joint investigation with the FBI.

Man Charged with Criminal Enterprise Conspiracy

On August 26, 2011, the State of Michigan 19th District Court established probable cause to file felony charges against a local businessman, his wife, and his mother. The businessman was charged with one count of conducting a criminal enterprise, one count of criminal enterprise conspiracy, seven counts of false pretenses, and one count of money laundering. His wife was charged with one count of false pretenses and his mother with one count of criminal enterprise conspiracy and four counts of false pretenses. The investigation alleges that when completing an application for a \$98,000 SBA-guaranteed business loan, the wife stated that she was the president and 100% owner of a transport company that was actually owned by her husband. The loan defaulted and \$93,347.87 was charged off. In addition, the husband took out a \$100,000 SBA-guaranteed loan in the name of his real estate investment company. This loan also defaulted and was charged off in the amount of \$75,188.52. In loan application documents, the husband allegedly overstated the annual revenue of the company as being \$890,000, when actually it was only \$35,240. Both the husband and wife stated that the loans would be used for working capital for the respective businesses, but the funds were allegedly processed, laundered, placed in the husband’s personal bank accounts, and spent. The charges against the businessman’s mother are related to a separate home mortgage fraud scheme. This is a joint investigation with the U.S. Secret Service, the HUD-OIG, and the Michigan State Police.

Disaster Loans

Former SBA Employee Sentenced

On May 17, 2011, an SBA paralegal was sentenced in U.S. District Court for the Eastern District of Texas to two years and 1 day imprisonment; 3 years supervised release, and \$33,600 in restitution. The investigation revealed that an application was made for a for a \$33,600 SBA disaster loan in order to replace personal property damaged as a result of Hurricane Ike. The applicant later decided not to take the loan and called SBA to cancel his loan application. A few months later, the applicant received a letter from the SBA requesting payment on his loan. He called the SBA and advised them he had never received the loan and thought he might be the victim of identity theft. The investigation revealed that instead of

cancelling the loan application, the SBA paralegal assigned to the loan forged his signature on loan documents, altered one of her personal checks by placing the applicant's name on it, and made false entries into the Disaster Credit Management System to support loan disbursement to her own personal checking account.

Government Contracting & Business Development

8(a) Business Owner Pleads Guilty

On August 18, 2011, the owner of an 8(a) certified business pled guilty in the Eastern District of Virginia to one count of procurement of citizenship or naturalization unlawfully and one count of false statements. His 8(a) certified firm has received over \$3 million in contracts set aside for 8(a) certified businesses. The investigation disclosed he obtained falsified U.S. citizenship documents from a Department of Homeland Security (DHS) employee and used the documents to obtain a Department of Defense security clearance. He also used the same falsified documents as a basis for his claim that he was a U.S. citizen on his firm's 8(a) application. This is a joint investigation with the DHS-OIG; DHS - Immigration and Customs Enforcement; Department of State - Diplomatic Security Service; and the Department of Labor - OIG.

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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