



## Office of Inspector General U.S. Small Business Administration

May 2011 Update

### *Business Loan Programs*

#### California Man Sentenced

On May 2, 2011, a California businessman was sentenced in the U.S. District Court for the Central District of California to 36 months in prison and 36 months supervised release. In addition, he was ordered to pay \$2,374,266.44, which includes nearly \$766,160 to the Small Business Administration (SBA) for fraudulently obtained loans and \$1,608,106 to victim companies that leased him restaurant equipment and real estate. The investigation revealed that he made false statements on three applications for SBA-guaranteed loans. Specifically, he failed to disclose that he was a defendant in two civil lawsuits that resulted in judgments against him and that he had numerous outstanding debts.

#### Michigan Title Company President Sentenced

On May 9, 2011, in the Eastern District of Michigan, a title company president was sentenced to one day incarceration, four years of supervised release, and ordered to pay a fine of \$8,000. He previously pled guilty to conspiracy to commit wire fraud. This investigation revealed that subject conspired with others and developed a scheme, unbeknownst to lenders, to pay kickbacks to brokers and realtors in exchange for the their utilization of her title company to conduct loan closings. The plea included the forfeiture of approximately \$492,000 in illicit proceeds held by the subject and her firm, which is no longer in business. This was a joint investigation with the United States Secret Service.

#### Lender Relations Officer Pleads Guilty

On May 10, 2011, a former SBA lender relations officer pled guilty in the Northern District of Illinois to one count of wire fraud. The charges related to entries he made into SBA databases, which traveled electronically across state lines. The subject was responsible, in part, 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

borrowers. He was also responsible for selling various delinquent loans to private equity investors. The investigation disclosed that he recommended selling 25 delinquent loans for substantially less than they were worth. He recommended the sale of the loans to his stepbrother, who owned an investment firm, and to his son-in-law and his firm. The defendant failed to disclose to the SBA his familial relationships or the true value of each loan. The plea agreement stipulates that he forfeit \$120,000, representing proceeds of the alleged fraud scheme between himself and the other two businesses. He will be ordered to pay restitution that will include all proceeds and profits associated with the fraud scheme. This is a joint investigation with the Federal Bureau of Investigation (FBI).

#### New Jersey Branch Manager Pleads Guilty

On May 11, 2011, in U.S. District Court, District of New Jersey, a former branch manager pled guilty to an Information charging him with making false statements and concealing material facts. The subject had assisted individuals in securing loans by falsifying site visit forms for their businesses. Of the ten loans identified as being brokered by subject, two loans, totaling \$150,000, were SBA-guaranteed. 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.

### *Disaster Loans*

#### Texas Man Sentenced to 15 Months in Prison

A Texas man was sentenced on May 13, 2011, in U.S. District Court for the Southern District of Texas, to 15 months in prison and four years supervised release. A determination of the amount of restitution owed by the subject was deferred until August 13, 2011. The subject received a business loan for Hurricane Rita damage totaling \$196,300. The investigation revealed that he submitted fictitious receipts and estimates to the SBA. It was determined that estimates and paid invoices submitted for equipment that was supposedly bought had in fact, not been purchased. The subject had also applied for a Hurricane Ike business and home loan. These

loans were put on hold pending the outcome of the fraud allegations relating to the Hurricane Rita loan. In addition, on his SBA loan application, the subject answered “no” to ever being convicted of a criminal offense or ever being indicted or on probation. A review of his criminal history revealed that he had been arrested numerous times and convicted of various crimes, to include possession of a controlled substance, burglary, resisting arrest, destruction of property, malicious mischief, burglary of a vehicle, and assault. Lastly, a review of bank records revealed that he had used SBA loan money to pay off his Chapter 13 bankruptcy, as well as for college tuition for his daughter, new furniture, a car for his wife, and loans to his family and friends. The investigation determined that of the \$196,300 loan from SBA, he spent approximately \$50,000 on actual business property and expenses.

#### Texas Brothers Charged in Disaster Fraud

On May 18, 2011, in the Southern District of Texas, two brothers were each charged with one count of conspiracy and one count of fraud in connection with a major disaster. One brother, a real estate broker and a Houston area bank director, was approved for \$999,700 in home and business Hurricane Ike disaster loans. The indictment alleges that he engaged in a fraudulent invoice scheme, where he submitted to SBA, inflated and false invoices for repairs to his residence and rental properties. It also alleges that he claimed that Hurricane Ike had damaged a rental property; however, the investigation determined that the property had actually been damaged by an intentional fire. This case was based upon a referral from the SBA Processing and Disbursement Center in Fort Worth, Texas and is being conducted jointly with the Department of Homeland Security-Office of Inspector General.

### ***Government Contracting & Business Development***

#### Fencing Firm Employee Pleads Guilty in New Mexico

On May 2, 2011, in U.S. District Court for the District of New Mexico, a man pled guilty to an information charging him with intent to convert to his use or gain public money, property, or records. He was sentenced on the same date to 48 hours in prison, a \$2,000 fine, and two years of unsupervised release. The subject was an employee of a fence building company in New Mexico that bid on a project to build a road for the U.S. Forest Service (USFS). This project was an SBA set-aside contract for Historically Underutilized Business Zone (HUBZone) businesses. Based on representations that this company was a HUBZone business, the USFS

selected the firm for this project even though it was not HUBZone certified. The subject ultimately falsified the required HUBZone certification that was provided to the USFS. This is a joint investigation with the FBI.

This update is produced by the SBA OIG,  
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