

# Oversight of SBA Disaster Assistance in Wake of Hurricane Sandy



# Agenda

- SBA Disaster Assistance
- SBA-OIG Disaster Assistance Audit Program
- SBA-OIG Disaster Assistance Investigative Program
- Fraud Indicators and Investigative Case Studies



# SBA Background

- Created in 1953
- Mission = growing business and creating jobs
- Four major programs:
  - Credit
  - Counseling
  - Contracting
  - Disaster Assistance \*\*\*

*\*\*\* to businesses, homeowners, and renters to preserve jobs and help return small business to operation*



# SBA Disaster Assistance

- SBA's sole direct lending program
- Borrower must demonstrate qualified loss and repayment ability
- For uninsured or underinsured losses
- Low, long-term, fixed interest rates



# Three Types of SBA Disaster Assistance Loans

## Home Physical Disaster Loans

Personal property (\$40,000 to repair/replace furniture, clothing, autos)

Real property (\$200,000)

## Business Physical Disaster Loans

(\$2 million; any business regardless of size)

## Economic Injury Disaster Loans

(\$2 million; small businesses only)



# SBA Hurricane Sandy Assistance in NJ

As of Oct 2013	Home Loans Approved	Home Loans Disbursed	Business Loans Approved	Business Loans Disbursed
New Jersey	\$635,549,000	\$135,772,400	\$197,622,900	\$54,949,100
Total	\$1,962,353,300	\$436,576,400	\$483,921,600	\$149,058,900



# SBA-OIG Disaster Assistance Audit Oversight

- Two disaster assistance audit teams
- Loan reviews
  - Analysis of repayment ability
  - Verification of loss
- Performance audits
  - Application approval process
  - Disbursement process
  - Liquidation process
  - Duplication of benefits



# SBA-OIG Investigative Program Areas

- Business Loan Fraud
- Government Contracting Fraud
- Disaster Loan Fraud
- Internal Affairs



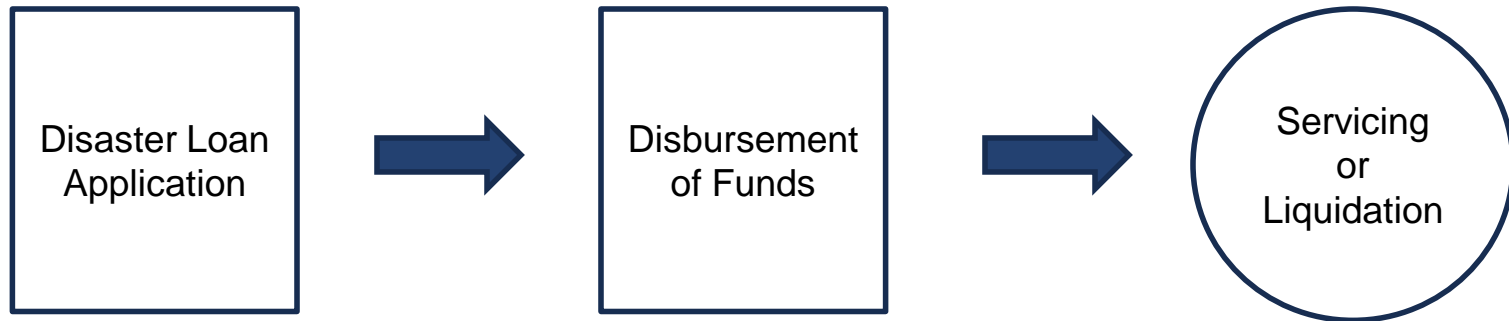


# Commonly Charged Federal Criminal Offenses

- ***Fraud in connection with major disaster or emergency benefits*** (18 U.S. Code Sec. 1040)
- ***Offenses relating to SBA programs*** (15 U.S. Code Sec. 645)
  - false statements
  - misappropriation of SBA funds or collateral
- **Others** (bribery, false statements, false claims, mail fraud, wire fraud, bank fraud)



# Disaster Loan Opportunities for Fraud



- ❖ Submission of false financial information, tax returns or other documents
- ❖ False claim of residence
- ❖ Overstatement of repair costs
- ❖ Misstatement of income
- ❖ False claim of ownership
- ❖ False assets claimed as collateral

- ❖ Misuse of Proceeds
- ❖ False negotiation of joint payee checks

Typically when the fraud is discovered !



# Fraud Indicators

- Invoices lacking or having altered serial numbers
- Checks or invoices issued out of sequence
- Altered or missing address on invoice letterhead
- No federal ID or tax number
- Credit check reveals variations on name and SSNs
- Borrower refuses to sign IRS waiver
- Does square footage of property align with claimed loss?
- Unsigned letters
- Quotes submitted vs. paid invoices
- Writing on check differs from bank encoding
- Ready-made lease agreements
- Ready-made invoices
- Unsupported checks to cash
- Checks to 3<sup>rd</sup> parties endorsed back to borrowers
- Cancelled checks to businesses not endorsed by name stamp



## Case Example – False Invoices and Cancelled Checks

- Houston real estate broker and bank director owned numerous rental properties he claimed were damaged following Hurricane Ike
- Claimed one property was destroyed by lightening strike in storm; records showed property burned down the week before
- Submitted \$850,000 in false invoices and cancelled checks from brother's construction company
- At trial, defendant claimed SBA had valuable collateral for loans; investigation revealed defendant submitted inflated appraisals to the court



## Case Example – False Claim of Ownership

- New Orleans resident obtained \$75,000 SBA disaster home loan and other federal aid
- Husband had lost the property a year before because of unpaid taxes and blight and city had sold the property to 3<sup>rd</sup> party
- Defendant applied for federal aid claiming ownership and residence
- Defendant submitted false quit-claim deed purported to show tax sale of property from city to Defendant



## Case Example – Falsification of Loan Collateral

- Jupiter FL business owner applied for SBA Economic Injury Business Disaster loan
- Defendant claimed business negatively affected due to a cancelled contract
- In the loan application, defendant submitted false title reports showing no undisclosed liens against five properties pledged as collateral
- Investigation revealed contract was terminated prior to storm and the existence of multiple judgments, liens and foreclosures



# Referrals

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