

SBA Loan Agent/Broker Fraud: What Does It Look Like?

Criminal agent/broker fraud and ethical violations can occur in a variety of situations - and they all can put your SBA portfolio at risk. The SBA Office of the Inspector General is taking a hard look at the increasing incidence of agent/broker and borrower fraud. While the OIG's Auditing Division examines SBA programs for waste, fraud and abuse, the Investigations Division investigates cases of suspected fraud. The OIG may then refer cases of fraud to the U.S. Department of Justice for criminal or civil prosecution. In this third eBulletin addressing SBA agent/broker fraud, let's take a look at case studies drawn from real-life experiences of the SBA OIG's Investigations Division.

Case #1

The owner of a window manufacturing business, his former partner, and a loan broker conspired to falsely represent a required \$700,000 capital injection for a \$1.75 million 7(a) loan. The court ordered everyone to pay restitution. The loan broker was sentenced to two years in prison and three years of supervised release. The borrower and his partner received five years probation.

Case #2

A financial institution referred a case to the SBA OIG involving a loan agent scheme involving 57 smaller loans (generally under \$50,000). In this case, the applicants either did not exist or gave false business histories. The OIG issued a Fraud Warning notice and conducted outreach activities.

Case #3

A suspended New Jersey attorney, acting as a loan broker, and an accountant assisted a borrower in obtaining a \$993,000 7(a) loan. In exchange for a 10 percent fee, the attorney conspired with the borrower and the accountant to submit forged power of attorney documents, fraudulent tax records, and false cash injection documentation. The court ordered everyone to pay restitution. The attorney pled guilty to wire fraud, money laundering, and aiding and abetting and was sentenced to 30 months in prison and three years probation. The borrower was sentenced to six months home confinement and three years probation. The accountant who provided false financial statements received 36 months probation

There were many "Red Flags" for fraudulent activity in each of these cases. As an SBA lender, you're in the best position to spot potential fraud - and take action. Your best protection: On a consistent basis, thoroughly vet potential brokers, perform due diligence in examining a borrower's paperwork, and comply with all regulations. And the more you're aware of potential wrongdoing the better position you're in to report regulatory violations and potential fraud so corrective action can be taken and criminal perpetrators prosecuted. Go to www.sba.gov and click on Report Waste, Fraud, and Abuse, email the OIGHotline@sba.gov or call the OIG Hotline at 1.800.767.0385.

At J.R. Bruno & Associates, we've seen just about everything in our many years of assisting SBA lenders. With more than 150 years' combined commercial lending experience, we can help you maintain your SBA portfolio - and see through the smokescreens. Call us.

Joanna

Joanna Bruno
President
J.R. Bruno & Associates
870 Market Street, Suite 462
San Francisco, CA 94102
415.362.1200
joanna@jrbrunoassoc.com

Visit us at www.jrbrunoassoc.com