

CLIENT ALERT

Prosecutors in New York and Texas Charge Individuals for Defrauding COVID-19 Relief Programs

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Federal authorities continue to prioritize and aggressively pursue individuals across the country who seek to exploit coronavirus relief programs meant to aid small businesses and their employees. Over the past week, Muge Ma of New York and Samuel Yates of Texas were arrested, each for submitting multiple fraudulent applications for COVID-19 relief through the Paycheck Protection Program (PPP). Both men obtained loan proceeds before their schemes were uncovered.

Ma allegedly made fraudulent applications for \$20 million in loans from the Small Business Administration (SBA) and at least five private banks, claiming that he employed hundreds of people at his two businesses with monthly payrolls in the millions. In actuality, he was the sole employee at each company. Along with his applications, Ma submitted false payroll records, financial statements, bank records and tax records. He was granted \$500,000 for one company and \$150,000 for the other from the SBA before his scheme was uncovered. Ma was also awarded \$800,000 by a private bank in a loan backed by the PPP, which was ultimately frozen. On May 21, 2020, he was charged in the Southern District of New York with bank fraud, wire fraud, and making false statements to a financial institution.

Yates, for his part, allegedly submitted two fraudulent applications for SBA-backed PPP loans. In the first, he sought \$5 million by falsely claiming that he employed 400 individuals with a \$2 million monthly payroll. In the second, he claimed to have 100 employees. In fact, Yates' purported business had no employees. Each application was supported by falsified lists of employees created by a random name generator that is publicly available on the internet and forged tax records. Yates received a \$500,000 plus loan in connection with his second application. On May 19, 2020, he was charged in the Eastern District of Texas with bank fraud, wire fraud, making false statements to a financial institution, and making false statements to the SBA.

Both arrests were the result of coordinated efforts among agencies including the Justice Department, the Federal Bureau of Investigation, the Treasury Inspector General for Tax Administration, the Small Business Administration Office of the Inspector General, U.S. Immigration and Custom's Homeland Security Investigations, and local authorities.

While the government has seemingly gone after the low-hanging fruit—glaringly fraudulent loan applications—in the early stages of its PPP oversight, businesses and corporate leaders should take note that stimulus fraud is being prosecuted aggressively across the country. Additional prosecutions will inevitably follow. Moreover, the coordinated, interagency efforts across jurisdictions demonstrate that prosecutors and regulators have the will and the resources to root out fraud on all scales.

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