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Engineer Charged in Texas with COVID-Relief Fraud

Texas Engineer Fraudulently Sought More than \$10 Million in CARES Act SBA Paycheck Protection Loans

An engineer has been charged in the Eastern District of Texas with allegedly filing bank loan applications fraudulently seeking more than \$10 million dollars in forgivable loans guaranteed by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Shashank Rai, 30, of Beaumont, Texas, allegedly sought millions of dollars in forgivable loans guaranteed by the SBA from two different banks by claiming to have 250 employees earning wages when, in fact, no employees worked for his purported business.

Rai is charged by way of a federal criminal complaint with violations of wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA.

“As alleged, Rai fraudulently pursued millions of dollars in loans intended for legitimate small businesses suffering the economic hardships of the COVID-19 pandemic,” said Assistant Attorney General Brian A. Benczkowski of the Justice Department’s Criminal Division. “The department and our law enforcement partners will remain vigilant in our efforts to protect critical CARES Act relief programs from fraud and abuse.”

“The behavior in this case was very brazen,” said U.S. Attorney Joseph D. Brown of the Eastern District of Texas. “Those who submit these applications for loans or other assistance need to understand that there are people checking on the representations made, and those representations are made under oath and subject to the penalties of perjury. Federal agencies are watching for fraud, and people who lie and try to cheat the system are going to be caught and prosecuted.”

“To support small and community banks, the Federal Home Loan Banks can accept Paycheck Protection Program (PPP) loans as collateral when making loans to their members,” said Richard Parker, Acting Deputy Inspector General for Investigations for the Federal Housing Finance Agency, Office of Inspector General. “The Office of Inspector General is proud to work with our partners in law enforcement to prevent, detect, and deter attempts to perpetrate fraud in the Federal Home Loan Bank System and steal the assistance intended for small business owners and employees under this important part of the CARES Act.”

“Today’s charges hold the defendant responsible for his actions to swindle money out of a federal program intended to help those in need during a pandemic crisis,” said Inspector General Jay N. Lerner of the Federal Deposit Insurance Corporation Office of Inspector General (FDIC OIG). “When an individual cheats the Paycheck Protection Program out of money, it deprives hard-working Americans and deserving small businesses. The FDIC OIG is committed to working with our law enforcement partners to investigate financial crimes in order to preserve the integrity of the nation’s banking sector.”

“SBA OIG and its law enforcement partners will aggressively investigate fraud in the Paycheck Protection Program,” said SBA Inspector General Hannibal “Mike” Ware. “The nation’s small businesses are counting on this program, and we will safeguard it to maintain the public trust. I want to thank the U.S. Attorney’s Office and our law enforcement partners for their dedication and pursuit of justice.”

“While the government is trying to help out small businesses, scammers are out there trying to help themselves,” said Inspector in Charge Delany De Leon-Colon of the Criminal Investigations Group. “Postal Inspectors are proud to work alongside the Department of Justice and our other law enforcement partners to identify and investigate anyone who capitalizes on this pandemic to commit fraud. The U.S. Postal Inspection Service is committed to protecting small business owners, and the American public, from those who seek to do financial harm.”

According to court documents unsealed today in U.S. District Court in Beaumont, Rai allegedly made two fraudulent claims to two different lenders for seek loans guaranteed by the SBA for COVID-19 relief through the PPP. In the application submitted to the first lender, Rai allegedly sought \$10 million in PPP loan proceeds by fraudulently claiming to have 250 employees with an average monthly payroll of \$4 million. In the second application, Rai allegedly sought approximately \$3 million in PPP loan proceeds by fraudulently claiming to have 250 employees with an average monthly payroll of approximately \$1.2 million.

According to court documents, the Texas Workforce Commission provided information to investigators of having no records of employee wages having been paid in 2020 by Rai or his purported business, Rai Family LLC. In addition, the Texas Comptroller’s Office of Public Accounts reported to investigators that Rai Family LLC reported no revenues for the fourth quarter of 2019 or the first quarter of 2020.

According to court documents, materials recovered from the trash outside of Rai’s residence included handwritten notes that appear to reflect an investment strategy for the \$3 million, which is the amount of money that Rai allegedly sought from the second lender.

The CARES Act is a federal law enacted on March 29, 2020, designed to provide emergency financial assistance to the millions of Americans who are suffering the economic effects caused by the COVID-19 pandemic. One source of relief provided by the CARES Act was the authorization of up to \$349 billion in forgivable loans to small businesses for job retention and certain other expenses, through the PPP. In April 2020, Congress authorized over \$300 billion in additional PPP funding.

The PPP allows qualifying small-businesses and other organizations to receive loans with a maturity of two years and an interest rate of 1 percent. PPP loan proceeds must be used by businesses on payroll costs, interest on mortgages, rent, and utilities. The PPP allows the interest and principal to be forgiven if businesses spend the proceeds on these expenses within eight weeks of receipt and use at least 75 percent of the forgiven amount for payroll.

A federal criminal complaint is merely an accusation. A defendant is presumed innocent unless and until proven guilty.

Assistant Chief L. Rush Atkinson and Trial Attorney Lou Manzo of the Criminal Division’s Fraud Section and Assistant U.S. Attorney Frank Coan for the Eastern District of Texas are prosecuting the case.

The Justice Department acknowledges and thanks the FHFA Office of Inspector General, FDIC Office of Inspector General, SBA Office of Inspector General, and U.S. Postal Inspection Service for their efforts investigating this matter.

Anyone with information about allegations of attempted fraud involving COVID-19 can report it by calling the Department of Justice’s National Center for Disaster Fraud Hotline at 866-720-5721 or via the NCDF Web Complaint Form at: <https://www.justice.gov/disaster-fraud/ncdf-disaster-complaint-form>.

The year 2020 marks the 150th anniversary of the Department of Justice. Learn more about the history of our agency at www.Justice.gov/Celebrating150Years.

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