



Suspected Money Laundering in the Residential Real Estate Industry

An Assessment Based Upon Suspicious Activity
Report Filing Analysis
April 2008



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Background

FinCEN conducted a Suspicious Activity Report (SAR) narrative assessment specifically to identify reports of suspected money laundering to promote or facilitate financial crimes generally associated with the residential real estate industry. It follows upon a December 2006 FinCEN assessment of SAR narratives regarding money laundering in the commercial real estate industry.¹ This report focuses on certain trends and typologies in the reporting of suspicious activity in key businesses and professions in the residential real estate industry. The report also provides summaries of SAR narratives that were reviewed for this study, which illustrate activities that may be indicative of money laundering and associated illicit financial activity.

Residential real estate-related money laundering is often associated with mortgage loan fraud.² This connection is understandable since money launderers may engage in mortgage loan fraud to promote laundering through residential real estate. Both money launderers and fraudsters engaged in mortgage loan fraud to reap illicit profits may employ nominee or straw buyers to fraudulently secure mortgage loans.³ Once a fraudulent mortgage loan is funded, however, the actions of the fraudster and those of the launderer diverge. The fraudster, who has generally employed a dishonest appraiser to inflate the value of the property and thereby the face amount of the loan

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1. See FinCEN publication, *Money Laundering in the Commercial Real Estate Industry: an Assessment Based upon Suspicious Activity Report Filing Analysis*, at http://www.fincen.gov/commercial_real_estate_assessment_final.pdf.
 2. See FinCEN publication, *Mortgage Loan Fraud: An Industry Assessment Based Upon Suspicious Activity Report Analysis*, at <http://www.fincen.gov/MortgageLoanFraud.pdf>.
 3. Straw buyer – in real estate transactions, a straw buyer is a person who allows his name, identifiers, and credit rating to be used to secure a mortgage for the purchase of real property. The straw buyer generally understands that he will neither occupy the property nor make payments on the loan. The straw buyer is generally paid a fee by the individual who either intends to flip the property or use the loan to launder illicit funds.

granted by the lending institution (property flipping), need only take the proceeds of the loan and abscond.⁴ The launderer, on whom this report is focused, has no interest in defrauding the lending institution. Instead, the launderer will strive to project an image of normalcy by continuing to make regular and timely payments on the mortgage loan, thereby integrating his illicit funds. Eventually, the launderer may re-sell the property, allowing for a trade-up to a more expensive property affording greater laundering and investment potential.

Whereas a lending institution is virtually certain to file a SAR in instances where it is the target of either a failed or successful mortgage loan fraud for profit scheme which threatens the institution's revenues, the same lending institution may have significant difficulty in even identifying mortgage loan fraud perpetrated by the money launderer. This may explain the significant number of SAR filings reporting mortgage loan fraud for profit and the paucity of SAR filings reporting mortgage loan fraud to promote money laundering.

4. Legitimate property flipping includes the purchase and rehabilitation of distressed property, which is then resold at a price greater than the original price plus the cost of rehabilitation. Fraudulent property flipping, as discussed herein, generally involves inflation of the true market value of property by employing the services of a dishonest appraiser. This false appraisal is intended to persuade a lending institution to grant a mortgage loan on the property for more than the property is worth. The lending institution may suffer a loss if the loan goes unpaid, and may be left with a foreclosed property that has a market value well below the fraudulent appraisal value.

Executive Summary

Although SAR narratives reporting suspicious activity associated with the residential real estate industry are relatively common, only about 20 percent of such filings reportedly describe suspected structuring and/or money laundering, and of those, only about 11 percent described any other suspected illicit activity including tax evasion, fraud, or identity theft.

Specifically, illicit activity related to tax evasion included:

- cashing checks payable to businesses and the diversion of cash business receipts in a manner possibly designed to evade taxes; and
- misusing the tax exempt status of organizations to conduct real estate-related businesses and disguise the profits as contributions.

Various types of fraud and identity theft were reported including:

- check kiting on real estate investment accounts;
- real estate investment accounts used to promote a potential pyramid scheme;
- fraudulently acquired state and federal tax refunds laundered through mortgage trust accounts;
- mortgage loans granted on the basis of fraudulent appraisals; and
- identity theft employed to drain the balances of home equity line of credit accounts and to layer illicit proceeds from money laundering activities.

Over 75 percent of the entities suspected to be involved in residential real estate-related money laundering were identified as individuals unaffiliated with residential real estate-related businesses. For example, launderers may use multiple nominees or straw buyers to secure numerous mortgages on various residential properties, thereby creating a means for the conversion of illicit cash into real property while projecting the appearance of many unrelated mortgages paid on a regular and timely basis.

Within the sampled SARs, the most commonly reported professions associated with the residential real estate industry and suspected of being involved in residential real estate-related structuring and/or laundering were builders, contractors and rehabbers, who were mentioned in only about 5.5 percent of all filing narratives. In these instances, the impetus to structure and/or launder generally appeared to be tax evasion.

The numbers of relevant SAR filings increased significantly after 2002 with the steepest increase reported in 2004-2005. The period 2005-2006 saw a pronounced flattening in the percentage increase in filings.

The pattern of increase generally follows that reported in FinCEN's commercial real estate and mortgage loan fraud SAR assessments, suggesting that the increase in these filings kept pace with, at least in part, the increase in mortgage loan activity brought on by an active national real estate market, which was in turn fueled in part by low mortgage interest rates. The flattening of the increase in SAR filings noted between the 2005 and 2006 data could be explained by a slowdown in residential real estate market activity resulting in part from an increase in mortgage interest rates during that period.

If SAR filings reporting money laundering associated with residential real estate continue to keep pace with the mortgage loan market, a predicted wave of refinancing, along with the predicted steady course for fixed-rate mortgages, might suggest mildly increasing numbers of SAR filings in subsequent near-term reporting periods.

Methodology

FinCEN used a Bank Secrecy Act (BSA) database analysis tool to isolate SARs of all types filed during the period January 1, 1996 through December 31, 2006, with narratives containing one or more key words generally associated with the residential real estate industry. Searches of the BSA database located 195,253 SARs of all types that contained one or more of these key words.⁵

From the 195,253 SARs, 1,095 were randomly selected for review. Of these, 1,029 were filed by depository institutions, 59 were filed by money services businesses, and seven were filed by securities and futures businesses. From our review, we identified 747 filings that described residential real estate-related transactions or involved persons, professions or businesses in that sector.⁶ Of these identified filings, 151 (20.21%) described suspected structuring and/or money laundering, and 17 of those described specific additional suspected criminal activities, such as tax evasion and fraud.⁷

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5. Of the 195,253 SARs, 183,072 were from depository institutions, 10,845 were from money services businesses, 1,260 were from securities and futures businesses, and 76 were from casinos. A categorization of the total 151 SAR filings of all types in this assessment that appear to describe structuring and/or money laundering associated with the residential real estate sector includes 118 of 1,029 (11.47%) depository institution filings, 31 of 59 (52.54%) money services business filings, and two of seven (28.57%) securities and futures filings analyzed.
 6. The narratives of the remaining 348 filings made only incidental references to residential real estate or contained one or more of the search terms used in other contexts, including commercial real estate.
 7. Measured against the entire aggregated SAR database, these 151 SAR narratives in the sample of 1,095, describing structuring and/or money laundering associated with residential real estate, would predict 26,925 relevant SAR filings of the total 4.2 million SARs of all types existent at the time of this assessment; or 0.64 percent of all SAR filings. Accordingly, approximately one of every 156 SAR filings of all types would be predicted to describe this activity. However, only 17 (11.26%) of the 151 SAR filings described one or more illicit activities associated with or underlying the reported structuring and/or money laundering. This outcome predicts that just one in 1,385 SAR filings of all types within the aggregated SAR database would describe other illicit activities associated with structuring and/or money laundering substantively tied to the residential real estate industry; or just 0.07 percent of all SAR filings. The other 596 SAR narratives mainly described mortgage loan fraud involving inflated appraisals of property and/or inflated prospective mortgagor income figures intended to defraud the lending institution.

Research & Analysis

The 151 identified SAR narratives fell into six categories: structuring,⁸ money laundering,⁹ tax evasion, fraud, identity theft, and other reported or suspected illicit activities.

Structuring Activities Related to Residential Real Estate

The following summaries of SAR narratives illustrate suspected structuring activities involving professions, businesses or transactions related to the residential real estate industry.

1. A money services business reported that an individual purchased six money orders totaling \$6,000 over a two-week period, all payable to the same mortgage company. No money order purchase was for more than \$3,000.

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8. "Structuring" occurs when a person, for the purpose of evading reporting or recordkeeping requirements under the Bank Secrecy Act, causes or attempts to cause a financial institution to fail to file reports or make records; causes or attempts to cause a financial institution to file reports or make records that contain material omissions or misstatements of fact; conducts or attempts to conduct one or more transactions, in any amount, at one or more financial institutions, on one or more days, in any manner, including the "breaking up" of a single sum that exceeds a reporting or recordkeeping threshold into smaller sums at or below the threshold. See 31 U.S.C. 5324; 31 C.F.R. 103.11(gg); 31 C.F.R. 103.63. Although structuring is frequently associated with money laundering and is often an indicator of it, the reasons for structuring financial transactions vary.
 9. "Money laundering" is the disguising of funds derived from illicit activity so that the funds may be used without detection of the illegal activity that produced them. Money laundering is a well-thought out process accomplished in three stages:

Placement: Requires physically moving and placing the funds into financial institutions or the retail economy. Depositing structured amounts of cash into the banking sector, and smuggling currency across international borders for further deposit, are common methods for placement.

Layering: Once the illicit funds have entered the financial system, multiple and sometimes complex financial transactions are conducted to further conceal their illegal nature, and to make it difficult to identify the source of the funds or eliminate an audit trail. Purchasing monetary instruments (traveler's checks, banks drafts, money orders, letters of credit, securities, bonds, etc.) with other monetary instruments, transferring funds between accounts, and using wire transfers facilitate layering.

Integration: The illicit funds re-enter the economy disguised as legitimate business earnings (securities, businesses, real estate). Unnecessary loans may be obtained to disguise illicit funds as the proceeds of business loans.

2. A money services business reported that two individuals purchased official checks for the same uneven multi-thousand dollar amount within a three-day period payable to the same title company. Aggregated, the checks exceeded \$10,000.
3. A bank reported that an individual apparently received a series of structured personal loans to pay for real estate. All loans were below \$10,000.
4. A bank reported that a customer deposited an escrow check for nearly \$1 million to his personal account. Over a six-month period, the customer used funds from this account to repeatedly purchase smaller and smaller official checks, each time taking amounts just under \$10,000 in cash.

Money Laundering Activities Related to Residential Real Estate

The following summaries of SAR narratives illustrate suspected money laundering activities involving professions, businesses or transactions related to the residential real estate industry.

1. A bank reported that one of its mortgage officers was found to have supplied false reference letters to non-resident aliens on dozens of mortgage loans. The bank officer resigned from the bank before this information was discovered, but a bank investigation of the matter determined that the loan officer had a business relationship with both the real estate agent involved in the sale of all of the properties and with a real estate appraiser. Additionally, the bank thought the real estate agent might be the actual owner of the properties being sold. The bank feared that given the false nature of the reference letters combined with the involvement of the appraiser, the bank might be facing multiple loan defaults as the result of loans made to financially unqualified loan applicants on properties with inflated values. Nonetheless, every one of the loans was reportedly performing.

Although not specifically suggested by the filing institution, it has been our experience that such activity may indicate the potential use of straw buyers to obtain dozens of mortgages, which could then be used to launder illicit funds as the loan payments are made.¹⁰

10. In this illustration, a straw buyer is a person who accepts a fee from a money launderer to allow the money launderer to use the straw buyer's identity on a mortgage loan application. The straw buyer generally neither occupies the purchased property, nor has any material part in repaying the loan.

2. An investment company reported that an individual received a wire from a third party remitter to his investment account and then drew down funds in the account, including a check to his business, a development company. The investment company reported it believed the activities described may indicate money laundering.
3. A bank reported that during a three-month period, a customer received nearly \$800,000 in large wire transfers to his account from an escrow company. The customer then purchased three large cashier's checks payable to the same escrow company. Although not specifically stated in the SAR narrative, it has been our experience that such activity may be part of a layering scheme.
4. A bank reported that its customer, an employee of a loan company, made 20 deposits and received 27 on-line payment transfers to his personal account within a four-month period. During the same period, the customer sent three wire transfers, purchased 17 official checks, and wrote four checks against the account. Many of these payments were made to real estate-related companies. Transactions on the account totaled nearly \$600,000 during this period. The bank reported that it believed the described activities might be indicative of money laundering.
5. A bank reported that it made a series of residential real estate loans (mainly refinancing and home equity loans) through the same two mortgage companies to various individuals aggregating just over \$6.5 million. In each instance, the borrower demanded rescission of the loan(s) a short time after funding. In each instance, the bank refused to rescind the loan(s), and the borrower immediately paid off the loan(s). Although not specifically stated in the SAR narrative, it has been our experience that the described activities may suggest the operation of some type of layering scheme.
6. A bank reported that a customer operating as a mortgage company issued numerous even multi-thousand dollar checks to numerous individuals, all under \$10,000. The mortgage company's principal claimed that the checks represented employee salaries, and that the company's funding sources were title and real estate companies.
7. A bank reported that two related customers opened ten certificates of deposit accounts with aggregate balances of \$1.5 million using funds from an undisclosed source. Though the maturities on the time deposit accounts were two years, after approximately one year, the customers closed all of the accounts and used the funds to purchase a cashier's check payable to an escrow company.

8. A bank reported that it had declined a borrower's \$2 million mortgage loan application based on information obtained from the Internet. The Internet implicated the bank's customer in a scheme to launder millions of dollars originating in Russia. The SAR narrative indicated the customer was under investigation for laundering between \$300,000 and \$500,000 per week in this case associated with a major bank scandal.

Structuring and/or Money Laundering in Residential Real Estate to Promote Other Illicit Activities

The following summaries of SAR narratives illustrate suspected structuring and/or money laundering to promote or facilitate other reported or suspected crimes.

Tax Evasion

1. A bank reported that a law enforcement official, who also owned a business, made a cash deposit to his personal account and purchased a bank check payable to a mortgage company with additional cash totaling over \$40,000. The money was comprised mainly of 50-dollar bills. The filer indicated its concern about the source of the cash, which was deposited to the subject's account in a period of less than one month. Though the SAR narrative does not specifically state it, our experience suggests the cash may have been derived from the customer's business and may have represented a conversion of cash business receipts in a possible attempt to evade taxes. Given the reported occupation of the customer and the form of the cash, the activities could also suggest potential public corruption.
2. A bank reported a series of transactions occurring within a one-month period in which the same property was bought and sold among related individuals. As a result of this flipping of the property, the bank granted a loan re-finance of over \$600,000 to an individual who did not hold title to the property at the time the loan closed. The bank indicated in the SAR narrative that it was not able to definitively determine the motive for these transactions, but surmised that they may have been conducted to promote money laundering or tax evasion.
3. A bank reported that the wife of a real estate construction company owner cashed numerous checks payable to the construction business totaling nearly \$89,000, in amounts of or below \$10,000. In the SAR narrative, the bank surmised that the checks were cashed in a structured manner to lessen the reported income for the construction business and thereby evade taxes.

4. A bank reported account activity for a customer who was involved in buying and selling real estate and collecting rental payments. The reported transactions were being conducted through accounts intended for non-profit religious organizations. Account activity showed no evidence of parishioner contributions or purchases that might be particular to a religious organization. The bank stated in the SAR narrative that it believed the customer was misusing his tax exempt status as a non-profit organization to run a for-profit real estate and property management company and using his non-profit accounts to disguise the proceeds as contributions to evade taxes.

Fraud

1. An investment company reported that individuals allegedly involved in real estate investing attempted to kite over \$25 million through their investment company account by depositing a check drawn on a closed account. The individuals attempted to layer the proceeds by sending four wire transfers to other financial institutions totaling nearly \$22.8 million funded by the uncollected balance in their investment account.
2. A bank reported that a customer used a \$500,000 home equity line of credit to start what appeared at first to be a major check kiting operation. During a three-month period, nearly \$2.5 million moved through the customer's personal account. The source of funds was checks drawn on what were apparently multiple real estate investment company accounts on which the customer was the sole signer. Also, during this period no checks were returned unpaid. The bank noted in the SAR narrative that these activities had the appearance of layering. Bank research located a website associated with the customer that describes how small investors can invest in contracts to develop residential and commercial real estate. The bank believes this Internet solicitation might be a pyramid scheme intended to defraud the public.¹¹

11. According to a Securities and Exchange Commission report: "In the classic 'pyramid' scheme, participants attempt to make money solely by recruiting new participants into the program. The hallmark of these schemes is the promise of sky-high returns in a short period of time for doing nothing other than handing over your money and getting others to do the same. The fraudsters behind a pyramid scheme may go to great lengths to make the program look like a legitimate multi-level marketing program. But despite their claims to have legitimate products or services to sell, these fraudsters simply use money coming in from new recruits to pay off early stage investors." See <http://www.sec.gov/answers/pyramid.htm>.

3. A bank reported that federal and state tax refund checks generated by the filing of false tax returns were apparently deposited to mortgage trust accounts. The trust accounts were tied to properties to which the fraudulently obtained tax refund checks were mailed.
4. A bank reported that one of its customers was named in media reports. The customer had pled guilty to wire fraud and money laundering. He admitted that he obtained \$6.4 million in mortgage loans using false appraisals.

Identity Theft

1. A bank reported that it received a change of address on a home equity line of credit account and later determined that the actual account holder's identity had been assumed by another individual. Nearly \$260,000 was paid out against the home equity line before the fraud was discovered. The funds were paid by check to several different individuals.
2. A bank reported a similar scheme involving a home equity line of credit. In this scheme, the identity thief both sent in a change of address to the bank and set up a bank account at a different institution in the name of the actual account holder. Though the filer did not specifically speculate on the precise reasons for these activities, it is our experience that the reported information suggests this may have been done to both facilitate transfers that would be less likely to raise suspicions and to initiate the layering process.

Other Reported or Suspected Illicit Activities

1. A bank reported that an unemployed individual made cash deposits with offsetting wire transfers and official check purchases totaling more than \$350,000 over a nine-month period payable to the same escrow company. Though not reported in the SAR narrative, the information reported suggests the individual may have been layering funds and was potentially operating an unregistered money services business.
2. A bank reported that according to news reports one of its customers was arrested for his involvement in the sale of drugs. Bank records indicated the customer may have laundered proceeds through a title company, a health food and supplements store he was associated with, and through the purchase of real estate.

3. A bank reported that within a four-month period a customer made structured cash deposits to her account. She also deposited large checks written by apparently unrelated individuals residing in two different states. Additionally, bank records indicated that the customer had received five wire transfers to her account totaling \$150,000 several months before. All of these monies served to fund a wire transfer of over \$450,000 to an escrow company. One of the signors on some of the large checks deposited to the account was also found to have written a large check to the same escrow company. It was noted that another of the deposited large checks bore a memo line notation apparently referencing real estate in a city in a Middle Eastern country under Office of Foreign Assets Control (OFAC) sanctions. The customer also sent a wire transfer from the account to an individual located in another country in the same region.
4. A bank reported that it had discovered through media reports that one of its customers, whose corporation had a mortgage loan with the bank, had been paying the mortgage with funds derived from sales of pirated compact discs.

Significant Findings

The level of residential real estate related SAR filings describing structuring and/or money laundering remained steady from 1997 to 2002. The number of filings increased markedly from 2002 to 2003, reached a plateau from 2003 to 2004, and rose sharply in the period 2004 to 2005, resulting in six times the number of SARs filed in 2005 as were filed in 2002. A pronounced flattening of this rate of increase in filings occurred from 2005 to 2006. The increases in filings were much larger than the corresponding increases in sales of new and existing homes.

One possible explanation for the disproportionate increase in filings may be the differing SAR filing requirements of the players within the residential real estate industry combined with the due diligence performed on each mortgage loan package as real estate market conditions changed over time. Unlike lending institutions, mortgage brokers have no SAR filing requirement. Consequently, a loan package rejected by a mortgage broker for reasons of attempted fraud will not trigger a SAR filing, whereas the same loan package reviewed by a lending institution probably will. As the real estate market turned up during 2003-2005, mortgage brokers may not have devoted the proper amount of due diligence to all loan packages, thus resulting in a larger number of fraudulent loan packages being approved and forwarded to lending institutions. This greater number of fraudulent loan packages reaching lending institutions might account for the noted increase in SAR filings.

The numbers of SAR filings describing money laundering associated with residential real estate tracked the changes in market activity over time. As mortgage interest rates dropped significantly during 2003-2005, market activity increased as did these types of SAR filings. As mortgage interest rates moved higher in 2005-2006, market activity slowed reflecting the flattening noted above in the filing pace of related SAR filings.

A total of \$1.1 trillion worth of adjustable rate mortgages reset in 2007. With adjustable rates trending higher than fixed rates, a major shift into fixed rate mortgages may be in the offing.¹² Though the refinancing of these loans would probably not pose as high a level of risk for loan fraud and money laundering as would new loans, such a wave of refinancing could correlate with an increase in SAR filings reporting money laundering associated with the residential real estate sector.

Of the 1,095 SAR filings in the reviewed sample, 747 were found to be relevant to the study. Just over 20 percent of these concerned suspected structuring and/or money laundering. However, just 11 percent of this subset of SAR filings described one or more suspected illicit activities apparently facilitated by the reported structuring and/or money laundering. Of the other suspected activities reported, the most prevalent were tax evasion, fraud, and identity theft.

A wide range of professions and businesses were noted as subjects in the SAR narratives describing the suspected structuring and/or money laundering. In most of the narratives, however, the subjects were not employed by, or otherwise affiliated with, residential real estate-related businesses. Builders, contractors, and rehabbers were the most commonly reported subjects that were affiliated with residential real estate-related businesses.¹³ Other businesses involved in residential real estate transactions, such as escrow companies, real estate companies, title companies and mortgage companies, were reported as primary subjects, but with less frequency than unaffiliated individuals and builders, contractors or rehabbers.

12. See library.hsh.com/?row_id=92, library.hsh.com/?row_id=93, and library.hsh.com/?row_id=94; and http://www.house.gov/apps/list/hearing/financialsvcs_dem/htbair090507.pdf. Additionally, Freddie Mac predicted steady levels for fixed-rate mortgage interest rates continuing through at least the first quarter of 2007. See http://www.freddiemac.com/news/finance/outlooks/Dec_06_frecom_outlook.html.

13. Of the total 161 subjects reported in 151 filings, 122 (75.78%) were individuals not employed by a residential real estate-related entity. As a group, builders, contractors, and rehabbers were the next most frequently reported subjects in nine (5.59%) reported occurrences.

Persons, Professions and Businesses Involved in Structuring, Money Laundering and Associated Crimes Tied to Residential Real Estate

Table 1 shows a breakdown of the persons, professions and businesses referenced in the 151 sampled SAR narratives.¹⁴

Table 1

Subject	Reported Occurrences (#)	Total Reported Occurrences (%)
Unaffiliated Individual	122	75.78
Builder/Contractor/Rehabber	9	5.59
Escrow Company	5	3.11
Real Estate Company	5	3.11
Title Company	5	3.11
Mortgage Company	4	2.48
Bank Officer	3	1.86
Attorney	2	1.24
Loan Broker	2	1.24
Development Company	1	<1.00
Landlord	1	<1.00
Settlement Services Company	1	<1.00
Time Share Company	1	<1.00
TOTAL	161	100.00

14. Note that some SARs reference more than one person, profession, or business.

Individuals unaffiliated with the residential real estate industry were found to account for over 75 percent of the entities involved in residential real estate-related structuring and/or money laundering, as reported in the narratives of the 151 relevant SARs. This result may be attributable to the relative ease with which an individual may launder money through residential real estate without the need to have any formal affiliation with the industry.

When an entity uses straw buyers, for example, the money launderer need only find employed individuals willing to accept a fee to allow their identities to be used to apply for residential real estate loans. The straw buyers' bank account can then be temporarily funded by the money launderer prior to application for the loan. In many cases, the mortgage company will determine that the applicant is employed and has sufficient savings in the bank to qualify for the loan. In instances where the launderer himself controls legitimate or front companies or has associates that do, it may be possible to also falsify the applicant's level of income and employment status. Once the loan is approved and funded, the launderer moves the money out of the straw buyer's account and may move it into another straw buyer's account to repeat the process. The loan payments are made by the launderer on a timely basis using illicit funds. As is often reported in SAR narratives that describe money laundering generally, payments may be made in the form of money orders or other negotiable instruments, which in this scenario may bear the name of the straw buyer, or may be in the form of automatic debits from the straw buyer's bank account, which is controlled by the launderer.

Previous research has indicated that when funds are layered through accounts, an individual not employed by a real estate-related entity may nonetheless work in concert with a corrupt real estate entity to launder illicit funds. A money launderer may convert illicit cash into negotiable instruments, including those purchased by others, which may then be deposited to personal and/or non real estate-related business accounts, and layered through the accounts of complicit residential real estate-related companies disguised as legitimate payments for real property or real estate-related services. The money may be returned disguised as the sales proceeds of real property or in payment for non real estate-related business goods or services purportedly provided to the residential real estate-related company by the launderer.

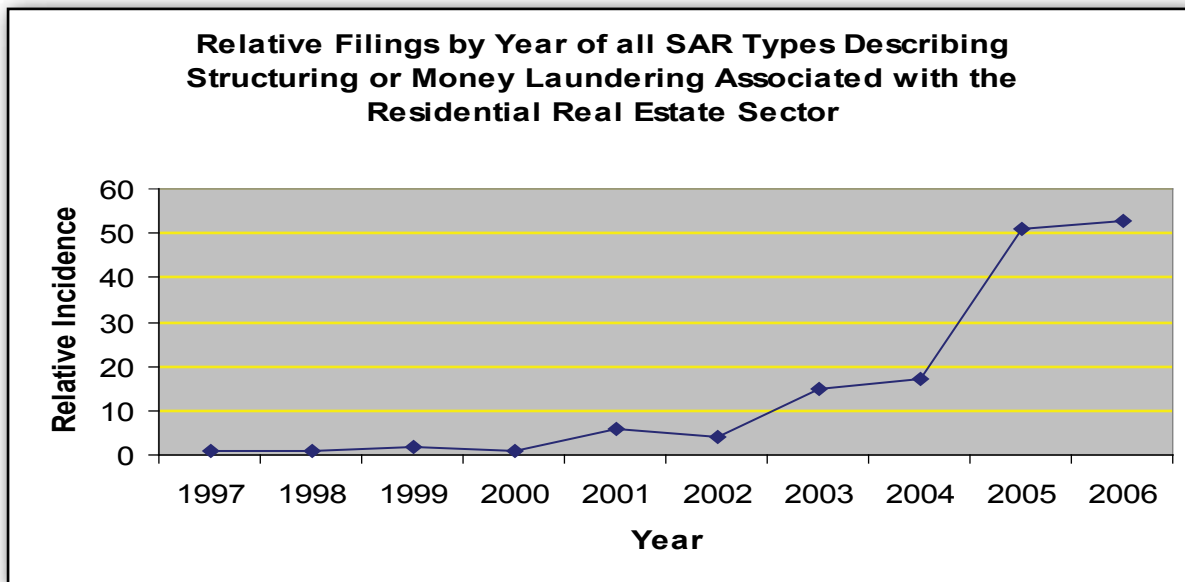
Though financial institutions do audit a percentage of their performing real estate loans, these loans may be less likely to draw attention than loans showing a spotty payment history. In instances where an institution is compelled to foreclose on a loan based on falsified loan documents, the institution may suffer a financial loss based on the costs associated with re-selling the real estate asset. Consequently, the actual

incidence of laundering employing straw buyers may be significantly higher than what SAR reporting would suggest. Many of these performing but falsified loans are only identified because the original lending institution will frequently bundle mortgage loans together and sell them to a wholesale lender, which may identify some of these performing, albeit falsified, loans and which the original lending institution is generally compelled to repurchase.

Filing Trends

Graph 1 aggregates all types of sample SAR filings reporting possible suspected structuring, money laundering, and associated illicit activity tied to the residential real estate industry. It shows a steep increase in the relative numbers of filings after 2004. This study used a random sample of the aggregate data set. The number of Relative Incidences reflected in the graph represents numbers associated with the sample.

Graph 1





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