The SAR Activity Review

Trends Tips & Issues

Issue 13

Published under the auspices of the BSA Advisory Group.
May 2008

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Introduction

T*he SAR Activity Review – Trends, Tips & Issues* is a product of continuing dialogue and close collaboration among the nation's financial institutions, law enforcement officials, and regulatory agencies[1] to provide meaningful information about the preparation, use, and value of Suspicious Activity Reports (SARs) filed by financial institutions.

This edition reflects several important topics relevant to the community of SAR filers and SAR users. As usual we have included many examples of how law enforcement makes good use of the Bank Secrecy Act (BSA) data. We are also highlighting three recent Financial Crimes Enforcement Network (FinCEN) SAR analytical reports: 1. *Insurance Industry Suspicious Activity Reporting: An Assessment of Suspicious Activity Report Filings*. 2. *Mortgage Loan Fraud: An Update of Trends based Upon an Analysis of Suspicious Activity Reports*, and 3. *Money Laundering in the Residential Real Estate Industry: An Assessment Based Upon Suspicious Activity Report Filing Analysis*. These reports reflect our continual efforts to offer informative and useful feedback to benefit both SAR users and SAR filers.

Below is a summary of topics addressed in this issue.

- Section 1: Director's Forum;
- Section 2: Trends and Analysis – the executive summaries of three recent FinCEN SAR analytical reports are provided.
- Section 3: Law Enforcement Cases – examples of how the BSA data played a role in healthcare fraud, tax evasion, and drug gang investigations.

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1. Participants include, among others, the American Bankers Association; Independent Community Bankers of America; American Institute of Certified Public Accountants; Securities Industry and Financial Markets Association; Futures Industry Association; Money Services Roundtable; Board of Governors of the Federal Reserve System; Office of the Comptroller of the Currency; Federal Deposit Insurance Corporation; Office of Thrift Supervision; National Credit Union Administration; U.S. Department of Justice's Criminal Division and Asset Forfeiture & Money Laundering Section and the Federal Bureau of Investigation; U.S. Department of Homeland Security's Bureau of Immigration and Customs Enforcement and U.S. Secret Service; U.S. Department of the Treasury's Office of Terrorism and Financial Intelligence, Internal Revenue Service, and the Financial Crimes Enforcement Network.

- Section 4: Issues & Guidance – an informative article on the wealth of information contained in Currency Transaction Reports and Suspicious Activity Reports is submitted by the New York State Banking Department.
- Section 5: Industry Forum – Robert G. Rowe III, Senior Regulatory Counsel for the Independent Community Bankers of America (ICBA) provides insightful comments.
- Section 6: Feedback Form.

Your comments and feedback are important to us. Please take a moment to let us know if the topics chosen are helpful. As noted above, we have included a feedback form in Section 6.

Your comments may be addressed to either or both of *The SAR Activity Review* project co-chairs:

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Section 1 — Director's Forum

I am pleased to introduce the thirteenth edition of The *SAR Activity Review - Trends, Tips & Issues*. This publication serves those communities with an interest in Suspicious Activity Reports (SARs), including financial institutions, law enforcement agencies, and regulators. As with previous issues, the focus of this edition is on providing information that facilitates improvements in the quality of SAR filings, and broadens understanding of the value of SARs, so that FinCEN analysts, law enforcement, and regulatory users will take full advantage of the unique information that they contain.

It is important to continually recognize that regulatory obligations, including SAR requirements, entail significant investments on the part of the financial industry. A public policy decision was made that these obligations and reports were critical to the security of our overall financial system. This decision established a partnership between the government and the financial industry. As a partner, FinCEN is committed to ensuring that all users of SARs benefit from and utilize the valuable information provided, protect that information from improper use or disclosure, and use that information to protect the very financial system which provides this critical data.

With that commitment in mind, this issue of *The Review* presents summaries of three recent FinCEN analytical reports:

- Insurance Industry Suspicious Activity Reporting: An Assessment of Suspicious Activity Report Filings.
- Mortgage Loan Fraud: An Update of Trends based Upon an Analysis of Suspicious Activity Reports.
- Money Laundering in the Residential Real Estate Industry: An Assessment Based Upon Suspicious Activity Report Filing.

These reports are featured because they highlight ways in which FinCEN analyzes SAR data, both for its added value to law enforcement and to provide feedback to SAR filers. FinCEN's intent is to enable filers to learn from their peers and expand their views beyond their own institutions' filings. In providing this broader and richer picture, other filers may be alerted to activities which could prompt adjustments to their own risk profiles, better protecting their institutions from fraud and other criminal activity. I have been encouraged by the positive responses to these reports, and I will continue to strongly support this use of SAR data.

This *Review* also provides many more law enforcement cases which describe the successful use of SARs and Currency Transaction Reports (CTRs) to combat crime. Additionally, an article from the New York State Banking Department reminds us all of the richness of the data contained in CTRs and SARs. An article provided by the FBI describes recent developments in subpoena practices which should be of great interest to SAR filers. As always, the Industry Forum provides an opportunity to hear from the private sector.

The Review is published twice per year. In the future, the predominant theme will remain focused on trends, tips, and law enforcement cases associated with SARs. Also, we will continue to include useful articles on CTR-related issues and provide information and cases that indicate how CTRs enhance law enforcement use of SARs. Going forward we intend to distinguish one *Review* a year by making it issue or industry specific. We believe all industries will benefit from a more focused edition. As we undertake these enhancements, I encourage you to provide us with feedback on the issues that you would most like to see discussed.

James H. Freis, Jr.
Director
Financial Crimes Enforcement Network

Section 2 - Trends & Analysis

This section of *The SAR Activity Review* describes patterns identified in suspicious activity reporting by both depository and non-depository institutions. In this issue, we address suspicious activity reporting related to the Insurance Industry, Mortgage Loan Fraud and Residential Real Estate.

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Insurance Industry Suspicious Activity Reporting: An Assessment of Suspicious Activity Report Filings

FinCEN is committed to providing quality written feedback to industries affected by new or amended regulations. The option for certain insurance companies to file SARs regarding certain covered products became mandatory in May 2006. FinCEN previously issued reports concerning SARs filed by the insurance industry in February 2003 and again in May 2007. FinCEN issued its latest report on April 2, 2008, which provides a more in-depth review of insurance company SAR filings from May 2006 to May 2007 and will serve to provide a baseline for future comparisons. See the full report at www.fincen.gov/Insurance_Industry_SAR.pdf.

Overall, the quality of SAR reporting has been quite good, indicating that insurance companies are well positioned to report suspected illicit activities relating to money laundering. In addition, their SARs provide information that may benefit the mission of state regulatory agencies.

FinCEN analysts reviewed each of the 641 SARs filed by insurance companies between May 2, 2006 and May 1, 2007. The majority of SARs filed by unique corporate entities were from Massachusetts, New York, and Ohio. The residences of the majority of the individuals who were the subjects of these SARs were located in New York, California, Florida, and New Jersey.

Filers categorized over half of the subjects as the insured, the beneficiary, the payer, or the applicant. The next largest category of subjects was the applicant or owner of an annuity.

Consistent with data from all other financial services industries, insurance company filers most commonly cited "BSA/Money Laundering/Structuring" as the characterization of suspicious activity. Structuring, where larger transactions are broken into smaller exchanges, is consistent with an attempt to avoid currency reporting requirements.

The data revealed some potential trends in illicit activity. Some of the typologies evidenced in the narratives appeared very similar to classical examples of the money laundering stages of layering and integration.[2] For example, subjects sometimes used multiple cash equivalents (e.g., cashier's checks and money orders) from different banks and money services businesses to make policy or annuity payments, and then cashed out the insurance products to potentially disguise the original source of the funds. Also, some customers seemed unusually willing to incur significant penalties for surrendering their annuities before full term.

FinCEN agrees that both the insurance regulators and industry will benefit from a more industry-specific format for reporting suspicious activity. Currently, insurance

2. 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. It is typically 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.

industry SARs are being filed on the SAR-SF, which was designed for the Securities and Futures industry.[3]

FinCEN has instructed insurance filers to add "SAR-IC" after the name of the institution (Part IV, Field 36) and begin the narrative with the term, "Insurance SAR" (Part VI).[4] This study found that some filers did not follow these instructions, thus hindering the identification of those filings as insurance SARs. Additionally, some filers include disclaimers in narratives. Disclaimers add no value to the SAR narrative and should be omitted.

Mortgage Loan Fraud: An Update of Trends Based Upon An Analysis of Suspicious Activity Reports

Following a large increase in depository institution SAR filings on mortgage loan fraud, FinCEN issued a report in November 2006 describing trends and patterns shown in SARs reporting suspected mortgage loan fraud filed between April 1, 1996 and March 31, 2006.[5] FinCEN continued to monitor these reports and on April 3, 2008, released the results of that analysis, which updates the previous report by reviewing SARs filed between April 2006 and March 2007. Read the full report at www.fincen.gov/MortgageLoanFraudSARAssessment.pdf.

In calendar year 2006, financial institutions filed 37,313 SARs citing suspected mortgage loan fraud, a 44% increase from the preceding year, compared to a 7% overall increase of depository institution SAR filings.[6] One reason for this increase may be that lenders are increasingly identifying suspected fraud prior to loan approval and reporting this activity. Suspected fraud was detected prior to loan disbursements in 31% of the mortgage loan fraud SARs filed between April 1, 2006 and March 31, 2007, compared to 21% during the preceding ten years.

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3. *See Notice and Request for Comments, Suspicious Activity Report by Insurance Companies*, 70 FR 66895 (November 3, 2005). See also *Release of Revised Suspicious Activity Reports*, 72 FR 23891 (May 1, 2007), indicating a delay to implement the effective date of the form due to the recently implemented data quality initiatives.
4. See Frequently Asked Questions, Anti-Money Laundering Program and Suspicious Activity Reporting Requirements for Insurance Companies at http://www.fincen.gov/insurance_companies_faq.html.
5. "Mortgage Loan Fraud: An Industry Assessment based upon Suspicious Activity Report Analysis," see http://www.fincen.gov/MortgageLoanFraud.pdf.
6. The total depository institution SARs reporting mortgage loan fraud in 2007 was 52,868.

Total SAR filings in 2006 on suspected mortgage loan fraud, when analyzed for the subject's state address,[7] showed the greatest increases in Illinois (76%), California (71%), Florida (53%), Michigan (52%), and Arizona (49%).[8]

Mortgage brokers initiated the loans reported on 58% of the SARs sampled for the report. SAR reporting included examples of brokers acting both as active participants in the reported fraudulent activity, and as intermediaries that did not verify information submitted on the loan application.

Reports of suspected identity fraud and identity theft[9] associated with mortgage loan fraud continued to increase for the period reviewed. Reports of suspected identity theft in conjunction with mortgage loan fraud increased 96% over the previous study. Cases of suspected identity fraud were predominantly associated with fraud for housing.[10] Victims of identity theft have had their properties encumbered with loans or property titles fraudulently transferred, effectively having their homes stolen.

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7. An increase in the number of subjects does not directly correlate into increased *transactions*. Since real estate transactions involve multiple parties, SARs frequently list multiple subjects in a single report. Some increases in reported subjects result from filers completing SARs more accurately or more thoroughly. Similarly, as some SARs indicate multiple subjects living in two or more states, these particular SARs may be included in multiple state totals. Consequently, total state filings, when listed by the subject's state, does not match the total number of SARs filers completed during the reviewed period.
8. These percentages represent the increase in SAR filings between 2005 and 2006. In this report, when percentages are in parenthesis, they are taken from a statistically representative sample unless noted otherwise, as here. Also, as many Suspicious Activity Reports contain multiple categories, such as subjects and activity types, some statistical tables and information contained in this report may exceed 100 percent.
9. For the purpose of this report, identity fraud was defined as the unauthorized use of a social security number issued to another individual or use of an invented social security number for the purpose of obtaining credit. Because the perpetrator used his/her true personal identifiers (i.e., name, address, and date of birth), there was no apparent attempt to steal another person's identity. Identity theft involved an attempt to obtain credit using another person's identity. The distinction made between identity fraud and identity theft is intended solely for the purpose of this report, and not intended to establish legal definitions of these terms.
10. Mortgage loan fraud can be divided into two broad categories: fraud for housing and fraud for profit. Fraud for housing generally involves material misrepresentation or omission of information with the intent to deceive or mislead a lender into extending credit that would likely not be offered if the true facts were known. Fraud for housing is generally committed by home buyers attempting to purchase homes for their personal use. In contrast, the motivation behind fraud for profit is money. Fraud for profit involves the same misuse of information with the intent to deceive or mislead the lender into extending credit that the lender would likely not have offered if the true facts were known, but the perpetrators of the fraud abscond with the proceeds of the loan, with little or no intention to purchase or actually occupy the house. Suspicious activity reporting confirms that fraud for profit is often committed with the complicity of industry insiders such as mortgage brokers, real estate agents, property appraisers, and settlement agents (attorneys and title examiners).

Filers specified that loans were subprime in 79 (0.19%) of the 40,781 SARs filed during the reviewed period. Without this specification, it is not possible to determine whether mortgages described in the remaining SARs were subprime loans.

Suspected Money Laundering in the Residential Real Estate Industry: An Assessment Based Upon Suspicious Activity Report Filing Analysis

FinCEN conducted an assessment of SAR reports on money laundering involving the residential real estate industry. This assessment follows up on a December 2006 FinCEN review of SAR narratives regarding money laundering in the commercial real estate industry.[11] The current report, published on May 1, 2008, 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. See the full report at http://www.fincen.gov/MLR_Real_Estate_Industry_SAR_web.pdf.

FinCEN used a 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.[12]

From the 195,253 SARs, 1,095 were randomly selected for review. Of these, 1,029

11. 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.

12. 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.

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.[13] 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.[14]

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;

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13. 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.

14. 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.

- 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 mortgages on various residential properties, thereby creating a means for the conversion of illicit funds 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 year-on-year percentage increase in the incidence of all SAR filing types followed a similar, but less pronounced, pattern during these same years.

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. 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, this might suggest mildly increasing numbers of SAR filings in subsequent near-term reporting periods.

Section 3 - Law Enforcement Cases

This section of *The SAR Activity Review* affords law enforcement agencies the opportunity to summarize investigations where SARs and other BSA information played an important role in the successful investigation and prosecution of criminal activity. This issue contains new case examples from federal, state and local law enforcement agencies. Additional law enforcement cases can be found on the FinCEN website, www.fincen.gov, under the Law Enforcement/ LE Cases Supported by BSA Filings link. This site is updated periodically with new cases of interest.

Contributing Editors: Shawn Braszo, Johnna Pimentel, James Emery, and Jack Cunniff

Law Enforcement Contributors: The requirements of confidentiality relating to SARs precludes FinCEN from associating the name of all of the law enforcement agencies and entities that utilized SAR information for the cases highlighted in this issue. However, the following agencies and entities contributed to the cases in this issue: The United States Attorneys for the Western District of Missouri and Eastern District of California, United States Probation Office, Northern Virginia SAR Review Team, ICE, DEA, USSS, and the Ohio Attorney General's Office.

Bank Secrecy Act Records, Tellers' Testimony Lead to Convictions for Medicare Fraud, Structuring, and Money Laundering

During a healthcare fraud investigation, a routine search of BSA records revealed CTRs and SARs on one of the subjects. These records opened up avenues of prosecution for money laundering charges as the SARs detailed a series of transactions designed to evade the BSA reporting requirements. Court exhibits of the transactions, as well as testimony from witnesses, helped a jury reach guilty verdicts on structuring and money laundering charges.

In a federal trial, prosecutors introduced evidence that showed the defendant defrauded Medicare of millions of dollars through a program that provides medical equipment to patients. Upon conviction, the judge sentenced the defendant to more than five years in federal prison without parole. The court also ordered the defendant to pay restitution and to forfeit to the government hundreds of thousands of dollars.

In trial, the jury heard testimony supporting the allegation that the defendant was guilty of health care fraud as well as multiple counts of structuring currency transactions and money laundering. Over the course of multiple years, the defendant and co-defendants submitted millions of dollars worth of false and fraudulent claims to Medicare on behalf of Medicare recipients, resulting in their actual receipt of more than $2 million from the Medicare program.

The defendant bribed physicians, who were charged as co-defendants in the federal indictment, to verify that Medicare beneficiaries needed the medical equipment. The physicians have admitted that at least half of those claims were fraudulent.

The jury also found the defendant guilty of more than a dozen counts of structuring currency transactions to evade the federal reporting requirements. The defendant made a series of cash withdrawals of $10,000 or less, in order to evade the federal requirement for filing a CTR.

During the trial, prosecutors submitted evidence concerning transactions documented in two SARs that described structuring activity in the form of multiple checks just under $10,000. One of the narratives noted that all checks drawn on the business were for cash and not for typical expenses such as rent or utilities. In addition, the bank found that the business was not open during its stated hours and an answering machine always answered phone calls. Finally, the SAR noted that when the defendant made more than one withdrawal in a day, he used multiple banking centers.

During the trial, prosecutors used both witnesses and exhibits to persuade the jury to convict the defendant on the structuring and money laundering charges. The government called witnesses to testify on the defendant's suspicious transactions. In conversations with the prosecutors, the bank employees expressed their pleasure and gratitude in knowing that the hard work they did in complying with the BSA led to the convictions. In addition, a government financial analyst presented information during the trial that detailed the structured transactions and wire transfers meant to hide the illicit proceeds.

Bank Secrecy Act Records Help Launch Investigation on Convicted Felon Not Complying with Restitution Order

A repeat fraud offender landed back in court when investigators found that two casinos filed CTRs for transactions he conducted that totaled over half a million dollars. The investigation determined that he substantially underreported his income, violated provisions of his release by traveling out of state and to casinos without authorization, and was not fulfilling requirements of his release to make prompt and full restitution. A federal grand jury recently indicted him for participation in yet another fraud scheme, which he perpetrated during the period of his supervised release.

Several years ago, the defendant was convicted of conspiracy in connection with a large-scale medical fraud involving staged automobile accidents. The defendant conspired to bill insurance companies thousands of dollars in fraudulent claims.

Following the defendant's conviction, a federal judge sentenced him to imprisonment, supervised release, full financial disclosure, and restitution in the amount of several hundred thousand dollars. However, upon release, the federal officials found that despite a high standard of living, the defendant was delinquent towards restitution.

A judge ordered an investigation into the defendant's finances. Investigators discovered that the defendant was significantly underreporting his personal income.

The investigation began with an inquiry of BSA records. An analysis of these records indicated that the defendant had gambled extensively at casinos in another state. The casinos filed 18 CTRs on the defendant, with dollar amounts on the reports ranging up to $185,000, and totaling over half a million dollars.

The identification of CTRs led investigators to subpoena gaming records from the casinos. These records show that the defendant traveled to those casinos on 54 separate occasions during a two-year period without authorization. During those visits to the casinos, the defendant was using large sums of money to gamble. The source of this money is currently under investigation.

Due to the unreported income, the federal officers initiated violation of supervised release proceedings charging the defendant with making false statements pertaining to his personal income. He was also charged in a multi-million dollar sub-prime mortgage fraud scheme. To date, lenders have suffered a loss of nearly five million dollars due to the scheme.

Proactive Suspicious Activity Report Review Leads to Guilty Plea for Money Remitter Structuring Transactions

A case initiated through a SAR review team identified a money remitter structuring transactions through multiple banks and accounts. Although registered with FinCEN, he did not properly license his business with state authorities. The banks initially became suspicious when he used his personal bank account to facilitate overseas wire transfers. The banks were also suspicious when these transfers were sent on a circuitous route to reach their final destination.

The subject pleaded guilty to a single charge of structuring cash deposits to evade reporting requirements. He faces a maximum prison term of 5 years, a fine of $250,000, a special assessment, and 3 years of supervised release. The defendant also agreed to forfeit more than $20,000 and cooperate with investigators. The defendant structured transactions with one or more domestic financial institutions by depositing cash totaling more than $100,000 in individual amounts of $10,000 or less, so that he would not trigger the CTR filing threshold. On several instances, the transactions occurred on successive days.

In a 2-year period, multiple banks filed several SARs on the subject and his business. He came to the attention of one bank's anti-money laundering officials because of a series of suspicious transactions. The defendant had repeatedly made cash deposits between $3,500 and $9,900. He also told bank employees that he intended to open a money services business and wire funds to a particular continent through a trading company located on a different continent.

Later, a different bank filed a SAR detailing similar transactions and also noting that the defendant appeared to be using his personal savings account for some of the business transactions. Most notably, some of the wire transfers to the trading company originated from his savings account. In conjunction with filing the SAR, the bank notified a member of a SAR review team. This notification eventually led to the start of the investigation.

Additional SARs filed by two other banks noted a similar pattern of structured transactions and wire transfers to a company and a bank located on different continents. The total amount of funds moved through the accounts and captured on the SARs exceeded $4 million.

Bank Secrecy Act Reports Cast Doubts on Alleged Victim's Story, Lead to Investigation and Indictment for Money Laundering and Operating an Illegal Online Pharmacy

An individual approached federal authorities and reported a story about drug smugglers. Agents questioned the individual's story and sought to authenticate his statements with queries in the BSA database. They instead found over a dozen CTRs and SARs that indicated the individual was involved in a criminal enterprise.

When charged, the defendant pleaded not guilty in U.S. District Court to conspiracy to import narcotics and a narcotics conspiracy charge. He was also charged with several counts of money laundering and unlawful monetary transactions.

According to investigators, the defendant operated an illegal online pharmacy. Evidence obtained during the execution of search warrants included business documents and electronic correspondence on how to avoid scrutiny of the DEA and FDA. The defendant used doctors in one Central American country and incorporated the business in another, while offering a toll-free phone number for use by Americans. The enterprise involved several thousand transactions per month.

A computer forensic examination revealed that the online pharmacy dispensed in the United States large quantities of schedule 3 & 4 controlled substances from various other countries. During an interview, the defendant reported millions of dollars of income per month. In order to facilitate the business, the defendant used a credit card processing company to receive payments from clients. That money was eventually transferred to accounts he controlled. From there, he made a series of large cash withdrawals, followed by wire transfers to Central America via an established money services business.

Three banks, a drug store, and a Las Vegas casino filed CTRs on the defendant. The reports describe large cash withdrawals from banks, or large amounts of money used to purchase wire transfers. A bank filed two SARs due to a pattern of unusual wire activity as well as the defendant's inability to provide supporting documentation for his business.

In addition, a money services business filed four SARs on the defendant, providing information that lead to several counts of money laundering.

With this information, the agents re-interviewed the defendant and learned about the online pharmacy. Further investigation and seizures provided additional evidence of money laundering and illegal drug sales.

Bank Secrecy Act Records Track Money Laundering Methods of Drug Gang

In a case involving dozens of defendants who orchestrated the importation and distribution of methamphetamine, BSA records helped investigators trace the flow of drug proceeds. The records, including Form 8300s and CTRs helped identify the cash purchase of a high-end automobile[15], and the flow of cash through casinos and banks.

The charges arose from a joint federal, state, and local investigation. A two-count felony information was filed charging two defendants with conspiring with others to launder money and travel in interstate commerce possessing and distributing methamphetamine, in excess of 500 grams. The defendants waived indictment and pled guilty.

A state law enforcement officer described the defendants as "homegrown terrorists" who eluded prosecution for years by intimidating anyone they met, even local law enforcement. "Just knowing the amount and volume of drugs they were distributing, we expect a dramatic impact in the area," he said. The defendants distributed enough drugs to get 60,000 people high. The defendants started their enterprise making methamphetamine with over-the-counter purchases of precursor drugs. However, after over-the-counter sales became illegal, they began importing methamphetamine from Mexico.

According to the charging document, the defendants and co-conspirators engaged in financial transactions from criminally derived property to further their drug business and conceal the true source of their assets. The defendants and others used a portion of money derived from the sale of methamphetamine to purchase additional methamphetamine.

Additionally, the defendants purchased assets using currency in such an amount, quantity and form so that the true source of the funds used to purchase the assets was hidden from law enforcement. They titled purchased assets in the names of nominee owners to avoid potential exposure to forfeiture provisions of drug and money laundering statutes in an effort to preserve their ill-gotten gains.

According to investigators, BSA records played a crucial role in the case. In fact, financial records helped tie the defendants and almost 40 other defendants together.

15. One Form 8300 detailed the payment of $26,000 in hundred dollar bills for a new car.

Proactive Suspicious Activity Report Search Leads to Guilty Plea in Tax Fraud Investigation

In a case initiated from the filing of a SAR, investigators found that a property owner under-reported his income for several years. All told, the defendant owed and did subsequently pay the Internal Revenue Service hundreds of thousands of dollars in back taxes, penalties, and interest. Six SARs, as well as numerous CTRs, document a pattern of structuring by the defendant.

The defendant pleaded guilty in federal court to four counts of filing false returns that underreported his income from rental properties by roughly $2 million over 4 years.

The defendant owned a series of rental properties. Often, he would subdivide single-family homes and rent individual bedrooms.

The case began with a proactive review of SARs by a SAR review team. The first identified SAR detailed a number of structured deposits made in the defendant's account during an 8 month period. Typically, the deposits consisted of money orders, official bank checks, cashier's checks, and cash. The structured components of the cash deposits ranged from amounts under $1,000 to amounts just under $10,000 with a total of more than $150,000 deposited during that time. Comments made on the memo line of the negotiable instruments indicated rent payments. Checks written on the account appear to have been deposited into investment accounts.

Subsequent SARs detailed similar activity. The defendant opened a new account at a different bank with a transaction that included just under $10,000 in cash, checks received for rent payments, and a transfer of funds from another bank for nearly $70,000. The next morning, he made another deposit of just under $10,000 cash and rental checks. The transaction immediately generated a CTR, and upon review led to a SAR. The bank filed an updated SAR a few months later that detailed additional structured transactions. The SAR review team honed in on these SARs, and initiated the investigation.

Seven different banks filed BSA reports on the subject. In addition to the SARs, these banks filed more than 50 CTRs for transactions associated with the defendant. In order to facilitate the tax evasion scheme, the defendant had accounts at many banks. He maintained a balance of close to $100,000, which is the FDIC insurance limit in each of the accounts.

Suspicious Activity Reports Document Transactions of International Fraud Ring

In a case that started when a bank notified federal agents that it intended to file a SAR on two subjects, investigators utilized BSA records to uncover additional participants in a fraud scheme. The investigation determined that the participants used stolen account information to steal funds and then wire the illicit proceeds to a foreign country.

A federal grand jury later indicted the two original subjects for their role in the fraud scheme. According to the indictment, the pair obtained account information stolen from financial institutions, created unauthorized access devices encoded with the stolen account information, and made unauthorized withdrawals from ATMs with the access devices. The indictment charges both defendants with conspiracy to commit wire fraud, wire fraud, and possession of device making equipment. One defendant was also charged with possession of unauthorized access devices with intent to defraud.

The indictment alleges a scheme to defraud whereby the defendants and a third co-conspirator received stolen financial institution account information from a fourth co-conspirator in a foreign country. The defendants then created unauthorized access devices encoded with the stolen account information and used these devices to make unauthorized withdrawals from the accounts via ATMs. After taking their portions of the proceeds, the defendants then wired the remaining funds to various individuals outside of the United States in amounts structured below the reporting requirements. The scheme resulted in discovered losses of more than $400,000.

According to the indictment, the pair and a co-conspirator initiated the conspiracy and the scheme to defraud. As part of the plan, a fourth co-conspirator periodically sent stolen financial account information, including account holder names, account numbers, passwords, and personal identification numbers via email. Once the defendants received the stolen account information, they programmed that data onto magnetic strip cards to create unauthorized access devices, which could be used in ATMs to make unauthorized cash withdrawals from the accounts. They used a laptop computer, and a manual magnetic card reader/writer to program the stolen information onto various magnetic strip cards, such as grocery store club cards and drugstore gift cards, to create the unauthorized access devices.

Eventually, the co-conspirator outside of the United States stopped sending stolen account information. At that point, one defendant returned to the foreign country to obtain stolen account information himself or recruit another individual to do so. The defendant eventually became the source of stolen account information, and the other two defendants shared their proceeds with him.

The case began when a bank identified the two initial subjects structuring cash deposits and subsequently wiring the funds out of the country. The bank also noticed that both subjects wired money to the same beneficiaries outside the United States. On the SAR, the bank also noted that the accounts were personal accounts, which did not have payroll deposits or debits normally seen on personal accounts.

All three of the subjects committing crimes in the United States were additionally listed on money services business SARs. These SARs also focused on funds transfers, which appeared to be structured to avoid the $3,000 record-keeping requirement. Again, multiple structured wire transfers had the same beneficiary.

Suspicious Activity Reports Detail International Payments of Drug Trafficking Ring

In a case jump-started from an international law enforcement alert, investigators searched BSA records for a drug trafficking investigation and found a number of SARs describing international wire transfers. Previously, a local drug task force had identified the ringleader, but only as a low-level distributor. The BSA records were instrumental in piecing together the international drug trafficking conspiracy and payment system that spanned four continents.

This case began with a message sent from South America notifying authorities about prescription drugs being shipped to local post office boxes in the United States. Authorities were able to obtain search warrants and uncovered the shipment from overseas of illegal prescription drugs and ecstasy to a number of rented post office boxes.

In two indictments, federal prosecutors charged several people with multiple drug trafficking offenses. One of the defendants was apparently at the center of the drug ring, wiring money to three continents to pay for the drugs. Co-conspirators received drugs from around the world at rented post office boxes in several counties. The leader arranged for distribution.

As the investigation progressed into the distribution of illegal prescription drugs, authorities learned that the leader was also involved in trafficking cocaine and marijuana.

Authorities said SARs were extremely helpful in piecing together the conspiracy. More than a dozen SARs from money services businesses detail the transactions that the ring used to purchase the illegal prescription drugs. The defendants made payments through local businesses in amounts that appear to be structured to avoid reporting and record-keeping requirements. The SARs indicate payments to countries in three continents.

Bank Secrecy Act Report Leads to Investigation Involving Immigration Violations, Money Laundering at Food Products Supplier

An investigation into a seemingly legitimate business uncovered what was in fact a vehicle for money laundering, smuggling and other crimes. BSA information assisted a federal agent in identifying monthly cash deposits of nearly $2 million into business accounts and wire transfers of millions of dollars to a food products supply company in Asia. Only a fraction of the value of the businesses “purchases” of food products was received in exchange. The investigation led to a large-scale alien smuggling and money laundering operation at a wholesale food products supply company. The food products supplier employed and harbored illegal aliens and used the business to launder illicit funds derived from immigration violations.

The case began when a bank filed a SAR and notified its state attorney general. The attorney general’s office closed its own investigation when the business relocated to a neighboring state and forwarded information about the case to a federal agency. This referral ultimately led to an investigation of human smuggling, illegal immigration and money laundering.

The defendants knowingly employed illegal aliens, whom they recruited through the local community. They harbored the illegal aliens, providing them with food, living quarters and basic necessities, and used these illegal employees to help recruit other illegal aliens. Employees were generally paid in cash, their income was untaxed and they were provided with no record of payment. The business owners converted part of their warehouse to house the illegal alien employees and rented two apartments near the business to house additional illegal workers. Later, the owners purchased a small house to accommodate their illegal employees. In all cases, the living conditions provided for the aliens were crowded, unsanitary and unsafe.

Financial analysis of the business accounts and extensive work with various banks revealed the large monthly cash deposits. According to a legitimate distributor of the same food products, a reasonable cash intake is 25 percent or less. Approximately 75 percent of this business's deposits were in cash.

At the conclusion of the investigation, federal agents seized approximately $3 million in cash and property from the business. More than a dozen individuals were arrested as a result of this investigation. The two main targets pleaded guilty to charges of employing and harboring illegal aliens. As part of a plea agreement, they were sentenced in U.S. District Court to one year of home detention, one year of probation, and were each fined $10,000. They also agreed to forfeit claim to the approximately $3 million in cash and property.

Section 4 - Issues & Guidance

This section of The SAR Activity Review discusses current issues raised with regard to the preparation and filing of SARs. This section is intended to identify suspicious activity reporting-related issues and provide meaningful guidance to filers. In addition, it reflects the collective positions of the government agencies that require organizations to file SARs.

Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR): Reading With Context

By Regina Stone[16]

CTRs and SARs collect a variety of information about a financial transaction. Regulators, just as law enforcement, are mindful that there are costs to the financial sector when requiring this information and understand that it is important the government communicate the value of this information to those providing it. In this article, the New York State Banking Department wants to illustrate how, when CTRs and SARs are read within a local context, the richness of the information becomes apparent.

CTRs and SARs may be completed independent of each other. A CTR or series of CTRs may generate a SAR, while a SAR may be completed without the benefit of a CTR, as the activity reported may represent an attempted but failed financial transaction or activity that did not require currency. Let's look at the value of the CTR, as every CTR does not necessarily result in the filing of a SAR.

16. Regina Stone is Deputy Superintendent of Licensed Financial Services for the New York State Banking Department.

CTRs
Level Within the Financial System

CTRs track currency in the hands of consumers whether the currency is cash flowing into or from the financial system. The level within the financial system at which the CTR is generated often has a substantial impact on the significance of the information that the CTR reveals.

CTRs are required to be filed by many financial institutions. These include banks, other depository institutions, brokers and dealers, money transmitters (and associated agents), currency exchangers, check cashers, and issuers/sellers/redeemers of money orders and travelers checks. These financial institutions represent different levels and portals into the financial system. Banks and other depository institutions are at the center of the financial system. On the other hand, money service businesses, as represented by the money transmitters, currency exchangers, check cashers, and issuer/sellers/redeemers of money orders and travelers checks, are nonbanks that represent portals into the banking system, which are one or more steps removed.

The closer the CTR filing is to the actual transactor/customer, the more valuable the information may be. For example, CTR filings by nonbank financial intermediaries such as money transmitters often contain useful information, which is in addition to the summary information contained in CTRs filed by banks.

CTR Form Information

All the information on the CTR form is useful. However, certain boxes of information are particularly valuable when attempting a quick read of the form: size of the transaction; occupation, profession or business; zip codes; identification; and date of birth.

A. Size of the Transaction

CTRs are required for cash transactions over $10,000 or a series of cash transactions that aggregate to over $10,000 in one business day by a given customer. Many CTR filings well exceed the $10,000 threshold. The largest CTR I have seen submitted in New York was in excess of $750,000. It is not unusual for CTRs filings to be in excess of $50,000. Bear in mind that this is consumer funds going into or out of the financial system, and that the individual conducting the transaction is willing to take the security risk of transporting that large amount of currency.

B. Occupation, Profession or Business

Many businesses are cash-intensive, either in the collection or payment of cash. Reading the occupation in conjunction with the size of the transaction gives an indication of whether the source would have generated that type of transaction. Some CTRs note the categories of unemployed, retired or disabled. This may raise questions as to whether the individual is among the unbanked or underserved.

C. Distances Reported

The CTR captures addresses with corresponding zip codes noted. Part I identifies the person on whose behalf the transactions are conducted, while Part II identifies the individual conducting the transaction. Part III identifies the financial institution where the transaction takes place. The mere use of the zip codes or address can indicate the distances individuals may be traveling to complete the transaction. For example, if a CTR indicates addresses (zip codes) that are not near each other, then the individual conducting the transaction may have traveled a great distance to complete the transaction. If a great distance was traveled to reach the portal into the financial system, why? It is possible that an individual is employed away from home or has just moved into the area. How many portals into the financial system were passed, and why? Are there too few portals into the system, i.e. underserved/unbanked area? Again, why is the individual willing to take the security risk of transporting currency?

D. Identification

Customer identification on the CTR serves the obvious purpose of verifying the identity of the person conducting the transaction. However, it also can be read in the context of the distance information provided by the CTR. For example, if a customer is traveling from state A to conduct a transaction in state B, but provides identification that is not associated with either state A or B, this questions not only the validity of the identification presented, but why the customer is willing to travel that distance to complete a transaction.

Date of Birth

A date of birth is a marker to identify the individual conducting the transaction. However, there have been occasions where the person conducting the transaction was under the majority age, possibly a student. Again, it questions the source of wealth. Is this individual unbanked or underserved, and would financial education be appropriate to bring this type of individual into the financial system?

External Information to Overlay on CTR Information

As demonstrated, reading a few CTR boxes in relation to each other tells a story. When external information such as various databases about the area of the transaction is considered, there is even more information to be derived. For example, what is the socio-economic characteristic of the areas where the transaction is being conducted or from where the customer traveled? Are they unbanked or underserved areas? What are the census tract characteristics? Are they areas of growth or decline? Are the areas commercial, residential or major transportation hubs? Are they areas where outreach in terms of financial literacy would be appropriate? Do the areas support the economics of the transaction? Are there opportunities for more financial institutions in those areas?

Reading Between the Lines

A CTR provides useful information about the customer and the environment the customer may be transacting in, which leads to further questions to be answered:

- Is the customer traveling great distances to conduct a transaction?
- Has the customer by-passed other portals to enter the financial system?
- Is the customer traveling from unbanked or underserved areas?
- Is the customer transacting in areas of major transit hubs?
- Is the transaction conducted in unbanked or underserved areas?
- What are the socio-economic characteristics of the area where the customer conducted the transaction or where the customer came from (address)?
- Does the customer transaction match a cash-intensive industry/business/occupation?
- Are these customers that would benefit from outreach and financial literacy programs?
- Does the transaction represent the appropriate level of economic support from the area?
- Do the areas represent opportunity for additional financial institutions to service the area?

Red Flags

Just as CTR information read in relation to each box on the form can lead to further questions, the same information can be interpreted as "Red Flags:"

- Why is a customer traveling great distances to complete a transaction?
- Why has the customer passed so many other portals into the financial system?
- Why is the customer willing to take the security risk of transporting currency to and from a portal into the financial system?
- Do the areas identified support the economic transaction being completed?
- Why is there a mismatch of addresses and identification presented?
- Why is someone under the majority age conducting a large transaction?

What Next? SAR Reporting?

As noted above, a CTR tells a story, which can generate simple questions as well as red flags. Red flags can result in a SAR being filed. However, as is well known, not every SAR is the result of a CTR. For example, someone may attempt to transmit over $10,000 through a financial institution but when asked to provide identification choose not to complete the transaction. No CTR is completed, but a SAR may be.

The single filing of a SAR may not indicate the complete story. It would be advantageous to know if this is the first SAR or if multiple SARs exist and for what reason. It would be further advantageous to "look back" to see if there are any CTRs that relate to any of the SAR information. Were similar transactions previously completed? If so, were they single transactions or possibly structured transactions? What identification was presented and collected at that time?

From a regulatory perspective, the regulator has the ability to look across the financial services industries to see if there are common patterns. FinCEN maintains the Gateway system which provides access to both CTRs and SARs. What starts out as a question for a single CTR (or series of CTRs) or SAR(s) at one financial institution can be expanded as a larger analysis across the financial services industries. In effect, the overlay of the FinCEN databases allows customer activity to be tracked not only within a given financial services industry, but across financial services industries.

Therefore, CTRs and SARs may be independent of each other. CTRs can complement and may support SAR filings. Regardless of how independent the information associated with a single CTR or SAR may appear, CTR and SAR databases should be compared: if questions start with a SAR – see if any CTRs are filed; and vice-versa.

Usefulness of Information

In summary, CTRs and SARs provide value individually and even more so when utilized in conjunction with each other. Reading with context and perspective unlocks the richness of the information provided. The relationships of information contained within the forms are important. Overlaying additional (external) databases provides greater information, and if the information can be grounded in a local context, the richer the information still.

Subpoenas for Electronic Records By the Federal Bureau of Investigation

SARs serve as leads for criminal and civil investigations. These leads often result in federal law enforcement agencies obtaining additional records by subpoena from financial institutions. A recent development in subpoena practice promises to streamline these investigations.

The Department of Justice (DOJ), Federal Bureau of Investigation (FBI) and Internal Revenue Service Criminal Investigation Division (IRS-CI) have developed a standardized attachment for grand jury subpoenas, and similar legal process issued under Federal Rule of Criminal Procedure 17, that requires the production of bank records in their original electronic form. This new subpoena attachment standardizes the format and terminology for obtaining electronically stored records from financial institutions. It is designed to remedy situations in which electronic records are downloaded, printed onto paper and then produced, only to have the law enforcement agency reverse that process and convert the paper records back to electronic data for review and analysis. This practice is costly and inefficient for both financial institutions and law enforcement.

The subpoena attachment does not represent a legal or policy change but simply relies on Rule 17(c) of the Federal Rules of Criminal Procedure, which explicitly includes "data" among materials subject to production. The scope of records to be produced under this new subpoena form has not changed but the *form of production* is now specified to be electronic data. (The Federal Reserve is in the process of revising Regulation S (12 CFR Part 219), including reimbursement terms for production of electronic records.)

The new subpoena form also provides standards for electronic data production. It requires that electronic data be produced in a useable format, and it specifies two types of electronic data: text data and image data. Text data, including account transaction data, are to be produced in either a non-proprietary format or within a software application that can export it without loss of data to a non-proprietary file format. Image data must be produced in non-proprietary or commonly readable formats at the highest resolution available.

The subpoena attachment provides instructions for use of encryption when transmitting data and for data verification, such as hash coding. These and other issues can be discussed and agreed upon with the relevant investigative agency prior to the production of records, similar to current subpoena response procedures.

A shared goal of the DOJ, FBI, and IRS-CI is to provide information that will assist financial institutions and their support operations in complying with the new subpoena attachment. This includes working with financial institutions during the transition period in coordinating the requests and associated responses to subpoenas. Any questions concerning the subpoena attachment can be directed to the Electronic Bank Records Project coordinators at (202) 324-8571 (FBI) or (703) 822-8410/(858) 430-1136 (IRS-CI).

Attachment to Subpoena Duces Tecum

PRODUCE THE FOLLOWING:

Any and all records in your possession, custody or control including but not limited to:

Account transaction records existing as electronic text data;

Items relating to account debits and credits existing as electronic image data;

[Specify other records sought (e.g., statements, signature cards, applications, correspondence)]

relating to:

account number(s):

account holder(s):

tax identification number(s):

other identifier(s):

for the period __/__/____ through __/__/____.

INSTRUCTIONS FOR PRODUCTION OF ELECTRONICALLY (DIGITALLY) STORED RECORDS

I. General

A. Electronically stored records shall be produced in electronic form and shall include those records held:

1. In your record retention systems; and/or
2. By your technology, data, or other service provider(s).

II. Text Data

A. Text data relating to transactions (e.g., core data, history file) shall be produced within a data file:

1. Using delimited ASCII text data format; or

2. Within software that can export without loss of data to a non proprietary file format; or

3. Using commonly readable file format set by agreement.

B. Text data files relating to transactions produced according to II.A. shall include field descriptions (e.g., account number, date/time, description, payee/payor, check number, item identifier, and amount).

III. Image Data

A. Image data shall be produced in graphic data files in a non proprietary or commonly readable format with the highest image quality maintained.

B. Image data of items associated with specific transactions (e.g., checks, deposits) shall be:

1. Produced in individual graphic data files with any associated endorsements; and

2. Linked to corresponding text data by a unique identifier.

IV. Encryption/Authentication

A. Electronically stored records may be transmitted in an encrypted container. Decryption keys shall be produced separately at the time the data are produced.

B. Authentication, such as hash coding, may be set by agreement.

Contact [   ] with any questions.

Section 5 - Industry Forum

In each issue of The SAR Activity Review, representatives from the financial services industry offer insights and share their perspective. The information provided may not represent the official position of the U.S. Government.

Collaboration

By Robert G. Rowe, III
Regulatory Counsel
Independent Community Bankers of America

For nearly 40 years, banks have supplied data and information to the federal government in compliance with the requirements of the BSA. Beginning with the CTR in 1970, the requirements have expanded over time. When Congress passed the USA PATRIOT Act in 2001, not only did the requirements expand further, but the number of financial institutions subject to reporting also grew.

The two key elements of the process from the industry perspective are still the CTR and the SAR. Working closely with our counterparts from the various regulatory agencies that oversee our companies and with representatives from law enforcement, industry representatives continually address issues surrounding the entire reporting process. We all want to make the process better. And working together, we're moving in that direction.

It is easy to get caught up with the costs and burdens associated with compliance and reporting. No-one in the financial services industry would ever question that BSA compliance is a high hurdle. What we need to constantly remind ourselves, though, is that there are reasons why we comply.

A good friend of mine has often said that when you get right down to it, compliance with many consumer protection rules is really just good customer service. There is probably room for debate on that subject, but if you look back at what generated many of the rules and regulations in that realm, there was often a misstep somewhere that prompted some member of Congress to push for new consumer protections. BSA compliance is somewhat different, but like other areas of compliance, we need to remind ourselves that it also has a customer service element.

Fundamentally, while BSA compliance may be costly and time-consuming, it is designed to protect our businesses and our customers. For example, even if a CTR or SAR filing doesn't directly correlate to some fraudster spending time behind bars, the reporting and surveillance we conduct as part of our compliance efforts also acts as a deterrent. But overall, the process is designed to protect our companies from being used and abused for criminal activities.

Regulators and law enforcement – with a little prodding from the industry – are constantly improving the feedback they provide. This issue of the SAR Activity Review, as Director Freis notes, includes helpful feedback on information from insurance SARs, mortgage lending fraud and money laundering in residential real estate. Certainly, with today's mortgage markets, having this kind of information is helpful to protect our businesses, and I encourage all bankers and financial services companies to take a look at the information these reports provide. But the more feedback we get, the better able we are to comply and the better able we are to understand the reasons we comply. This communication and feedback is a key part of the collaborative effort.

If you ever attend a meeting or conference on BSA compliance, you are likely to hear a representative from the law enforcement community comment on how extremely valuable they find the data furnished in BSA reports. We can use more of that communication, and this publication is one vehicle to communicate that feedback. The summary of cases is not just interesting reading on bad guys who were caught – it provides information and benchmarks that we in the industry can use to beef up our own efforts. But other parts of the SAR Activity Review also help industry provide better information for law enforcement. Again, a collaborative effort.

Advances in technology have provided amazing new uses for BSA data. For example, the analysis that FinCEN has done on mortgage fraud is extremely helpful. Perhaps more important, the Federal Bureau of Investigation has been making amazing use of the information by combining it with data from other sources to help track down and catch criminals. And when they do that, they protect financial services companies and our customers. One more example of the benefits of working together in collaboration.

Is this a perfect world? No. Could we do better? Certainly. Trying to streamline and simplify the reporting system to eliminate unnecessary information is important for everyone in the process. That's another area where our collaborative efforts come in. For example, FinCEN has proposed new rules to exempt customers from CTR filings that are designed to move us in the right direction.

This is an ongoing process. As representatives from the industry that bears the burden of producing the data, we expect much from the law enforcement community and from our regulatory agencies. And we should. But we have to remind ourselves that we are all working together. Fortunately, FinCEN recognizes the value and importance of that collaboration and strives to improve and enhance it.

The Bank Secrecy Act Advisory Group (BSAAG) is an extremely valuable forum of collaboration. What is important is that each and every one of us needs to communicate concerns, suggestions and issues surrounding BSA compliance. Working together collaboratively and under the auspices of the BSAAG, the banking agencies developed a new BSA Exam Manual in 2005 that is perhaps the epitome of industry/agency collaboration – and it was done in record time! But continuing that collaboration, we can continue making the BSA compliance process an efficient and effective system – with minimal burdens but maximum results.

Section 6 - Feedback Form

Financial Crimes Enforcement Network

U.S. Department of the Treasury

Your feedback is important and will assist us in planning future issues of ***The SAR Activity Review.*** *Please take the time to complete this form. Thank you for your cooperation. This form can also be accessed and completed online by visiting* http://www.fincen.gov/feedback/fb.sar.artti.php. *Any questions can be submitted to* sar.review@fincen.gov.

A. Please identify your type of financial institution.

Depository Institution:
__ Bank or Bank Holding Company
__ Savings Association
__ Credit Union
__ Edge & Agreement Corporation
__ Foreign Bank with U.S. Branches or Agencies

Securities and Futures Industry:
__ Securities Broker/Dealer
__Futures Commission Merchant
__Introducing Broker in Commodities
__Mutual Fund

Money Services Business:
__ Money Transmitter
__ Money Order Company or Agent
__ Traveler's Check Company or Agent
__ Currency Dealer or Exchanger
__ U.S. Postal Service
__ Stored Value

Casino or Card Club:
__ Casino located in Nevada
__ Casino located outside of Nevada
__ Card Club

__ **Dealers in Precious Metals, Precious Stones, or Jewels**

__ **Insurance Company**

Other (please identify): _________

B. Please indicate your level of satisfaction with each section of this issue of The SAR Activity Review- Trends Tips and Issues (circle your response).

	1=Not Useful, 5=Very Useful				
Section 1 - Director's Forum	1	2	3	4	5
Section 2 - Trends and Analysis	1	2	3	4	5
Section 3 - Law Enforcement Cases	1	2	3	4	5
Section 4 - Issues & Guidance	1	2	3	4	5
Section 5 - Industry Forum	1	2	3	4	5
Section 6 - Feedback Form	1	2	3	4	5

C. What information or article in this edition did you find the most helpful or interesting? Please explain why (please indicate by topic title and page number):

____
____
____
____

D. What information did you find least helpful or interesting? Please explain why (again, please indicate by topic title and page number):

____
____
____
____

E. Did you find the Index listing of previous and current SAR Topics useful?

Yes No

F. What new TOPICS, TRENDS, or PATTERNS in suspicious activity would you like to see addressed in the next edition of *The SAR Activity Review – Trends, Tips & Issues*? Please be specific - Examples might include: in a particular geographic area; concerning a certain type of transaction or instrument; other hot topics, etc.

____
____
____
____

G. What questions does your financial institution have about The SAR Activity Review that need to be answered?

____
____
____
____

H. Which of the previous issues have you read? (Check all that apply)

[ ] October 2000	[ ] June 2001	[ ] October 2001	[ ] August 2002
[ ] February 2003	[ ] November 2003	[ ] August 2004	[ ] April 2005
[ ] October 2005	[ ] May 2006	[ ] May 2007	[ ] Oct 2007

Please fax Feedback Forms to:

Financial Crimes Enforcement Network (FinCEN)
(202) 354-6411

Section 7 - Appendix

Index of Topics from All Editions of *The SAR Activity Review - Trends, Tips & Issues*

Topic	Issue	Page	Hyperlink Address to SAR Activity Review Issue
Automated Teller Machine (ATM) Commonly Filed Violations	7	23	http://www.fincen.gov/sarreviewissue7.pdf
Automobile Retail Industry: SAR Analysis – Indications of Suspicious Activity	5	27	http://www.fincen.gov/sarreviewissue5.pdf
Boat/Yacht Retail Industry: SAR Analysis – Indications of Suspicious Activity	5	31	http://www.fincen.gov/sarreviewissue5.pdf
Broker-Dealer SARs – The First Year	7	20	http://www.fincen.gov/sarreviewissue7.pdf
Casino and Card Club Industries – Suspicious Activity Report Filings	8	19	http://www.fincen.gov/sarreviewissue8.pdf
Computer Intrusion	3	15	http://www.fincen.gov/sarreviewissue3.pdf
Computer Intrusion	9	15	http://www.fincen.gov/sarreviewissue9.pdf
Consumer Loan Fraud	7	27	http://www.fincen.gov/sarreviewissue7.pdf
Convenience Checks	12	5	http://www.fincen.gov/sarreviewissue12.pdf
Correspondent Accounts and Shell Company Activity	2	18	http://www.fincen.gov/sarreview2issue4web.pdf
Coupon Redemption Fraud	6	14	http://www.fincen.gov/sarreviewissue6.pdf
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Detection of Unlicensed/Unregistered MSBs through SAR Filings — Pre & Post Guidance Comparison	11	6	http://www.fincen.gov/sarreviewissue11.pdf
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Director's Forum: Issue 10	10	3	http://www.fincen.gov/sarreviewissue10.pdf
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Director's Forum: Issue 12	12	3	http://www.fincen.gov/sarreviewissue12.pdf
Director's Forum: Issue 13	13	3	http://www.fincen.gov/sarreviewissue13.pdf

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