Mortgage Loan Fraud
Update

Suspicious Activity Report Filings
In 1st Quarter 2011

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Introduction

This update to FinCEN's prior Mortgage Loan Fraud (MLF) studies looks at Suspicious Activity Report (SAR) filings from January through March 2011 (2011 Q1). It provides new information on reporting activities, geographic locations, and other filing trends in 2011 Q1. The update includes tables and illustrations of various geographies reported in 2011 Q1 based on dates that suspicious activities are reported to have begun. Tables covering non-geographic aspects are compared with filings from the corresponding period in 2010.

A section on Current Issues updates statistics on SARs related to federal mortgage relief programs. Additional details cover reported mortgage fraud activities 90 or fewer days old, with an emphasis on so-called "debt elimination" and "foreclosure rescue" scams. This report also summarizes FinCEN's ongoing collaboration with other government agencies to combat these and other mortgage fraud scams.

Overall Filings

In 2011 Q1, filers submitted 25,485 Mortgage Loan Fraud SARs (MLF SARs),[1] a 31 percent increase over the previous year.[2] The total number of SARs filed in 2011 Q1 increased by 10 percent. Fourteen percent of all SARs filed in 2011 Q1 indicated MLF as an activity characterization, up from 12 percent in the year ago Q1.[3]

Table 1: Mortgage Loan Fraud SAR Filings
Relative to All SAR Filings

	2011 Q1	*2010 Q1*	*% Change*
MLF SARs	25,485	19,420	31%
All SARs	186,331	168,790	10%
MLF SARs as a proportion of all SARs	14%	12%	19%

1. For purposes of this report, SARs and totals thereof refer only to the Suspicious Activity Report filed by depository institutions (TD F 90-22.47). Related activities reported on the Suspicious Activity Report by Money Services Business (FinCEN 109) and Suspicious Activity Report by Securities and Futures Industries (FinCEN 101) are not included in table or map totals. Percentages throughout this report are rounded to the nearest whole number.
2. Filing increases are not necessarily indicative of an overall increase in mortgage loan fraud (MLF) activities over the noted period, as the volume of SAR filings in any given period does not directly correlate to the number or timing of suspected fraudulent incidents in that period. For further explanation, see FinCEN's July 2010 report, "*Mortgage Loan Fraud Update: Suspicious Activity Report Filings from October 1 – December 31, 2009*" at http://www.fincen.gov/pdf/MLF%20Update.pdf.
3. MLF SARs constituted 9 percent of all SARs filed from 2007 Q4 to 2010 Q4. See "*Mortgage Loan Fraud Update*," published in *The SAR Activity Review - Trends, Tips & Issues*, Issue 16, October 2009 at http://www.fincen.gov/news_room/rp/files/sar_tti_16.pdf, page 5.

Time lapses between filing and activity dates in 2011 Q1 MLF SAR filings showed focus on increasingly dated activities. In 2011 Q1, 86 percent of reported activities occurred more than 2 years prior to filing, compared to 78 percent in 2010 Q1 (Table 2). Moreover, the largest change came in activities that occurred 4 or more years prior to SAR filing, which were 42 percent of reporting in 2011 Q1 and only 13 percent the year before.

For both 2011 Q1 and 2010 Q1 filings, a majority of reported activities took place between January 2006 and December 2008.[4] In Table 2, these filing periods are highlighted in **bold** type.

Table 2: Mortgage Loan Fraud (MLF) SARs Time Elapsed from Activity Date to Reporting Date[5]		
Time Lapsed	***2011 Q1***	***2010 Q1***
0 - 90 days	6%	10%
90 - 180 days	3%	3%
180 days - 1 year	3%	3%
1 - 2 years	2%	6%
2 - 3 years	6%	**27%**
3 - 4 years	**37%**	**38%**
4 - 5 years	**25%**	9%
> 5 years	17%	4%

4. FinCEN has previously reported on contributing factors that triggered loan reviews and led to the discovery of more dated suspicious activities. See *Mortgage Loan Fraud Update: Suspicious Activity Report Filings from October 1 – December 31, 2009*.

5. Calculations for Table 2 derive from Part III, Field 33 and Part IV, Field 50 of the depository institution SAR form. Table 2 totals are based on commencement dates. SARs with omitted or erroneous filing and activity dates are not represented. While Field 33 allows filers to specify both a commencement date and an end date of suspicious activities, filers did not report an end date in 4 percent of 2011 Q1 MLF SARs. In previous periods, much fewer SARs included this information; hence, totals relying on activity end dates are significantly less comprehensive than those based on start dates. Further, for MLF SARs reporting multiyear activities, filers frequently relate activities involving older loans that the institution continues to hold. In numerous other reports, filers related older suspected frauds that the filer detected when the same borrower applied for a more recent loan with conflicting information on the loan application, hence their inclusion of more recent activity end dates. For these reasons, calculations herein use the activity start date rather than the activity end date.

For both periods, more than 80 percent of MLF SARs involved *suspicious activity amounts* under $500,000. Filers disclosed *loss* amounts less frequently, reporting losses in only 15 percent of 2011 Q1 MLF SARs, down from 24 percent in 2010 Q1; most reported amounts were under $500,000. Consistent with previous years, a relatively small number of MLF SARs (42 filings) included recovered amounts in 2011 Q1.[6]

Table 3: Mortgage Loan Fraud (MLF) SARs
Reported Amounts[7] of: (1) Suspicious Activity and (2) Loss Prior to Recovery

		< $100K	*$100K - $250K*	*$250K - $500K*	*$500K - $1M*	*$1M - $2M*	*> $2M*	*Not indicated*
(1) SARs reporting **suspicious activity amounts**	2011 Q1	2,898 11%	9,099 36%	9,257 36%	3,026 12%	705 3%	428 2%	72 -
	2010 Q1	4,965 26%	6,326 33%	5,516 28%	1,657 9%	403 2%	315 2%	238 1%
(2) SARs reporting **loss amounts**	2011 Q1	1,280 5%	1,228 5%	909 4%	339 1%	74 -	25 -	21,630 85%
	2010 Q1	2,326 12%	1,521 8%	704 4%	154 1%	27 -	21 -	14,667 76%

6. Due to the low number of MLF SARs citing recovered amounts, this data is not included in Table 3. Percentages under 1% are omitted or indicated with a hyphen in this report.
7. The amount of suspicious activity, loss prior to recovery, and recovery are reported in Part III of the SAR form, Fields 34, 36, and 37.

Subject Locations

Tables 4 through 6 rank states, metropolitan areas, and counties based on the number of subjects in 2011 Q1 MLF SARs with suspicious activity dates starting after January 1, 2009. The lists also show rankings based on numbers of subjects per capita, to highlight areas where MLF activity is greater relative to the population size.

Expanded tables for additional state, MSA, and county locations are provided at http://www.fincen.gov/mlf_sar_data/ in Excel and PDF format with historical quarterly data from January 2006 forward. Ranking methodologies and other metadata are provided within these files.

By State

State File

California and Florida remained the highest ranked states based on the number of mortgage loan fraud subjects, followed by New York and Illinois.

Based on per capita rankings, California bumped Nevada as the top ranked state from 2010 Q4, topping the list for the first time in four years. Third-ranked North Carolina picked up its highest ever ranking. The District of Columbia, New Jersey, and Rhode Island entered the top ten, replacing Maryland, New York, and Arizona. Florida ranked fifth, its first time outside the top four reported states since 2006.

Table 4: Mortgage Loan Fraud SAR Subjects
Top 20 States and Territories

State	2011 Q1 Rank by volume	2011 Q1 State Rank per capita	State	2011 Q1 Rank by volume	2011 Q1 State Rank per capita
CA	1	1	AZ	10	11
NV	18	2	WA	11	12
NC	12	3	DE	37	13
DC	41	4	MD	13	14
FL	2	5	CO	16	15
IL	4	6	VA	8	16
GA	6	7	NY	3	17
NJ	7	8	HI	35	18
RI	31	9	MA	14	19
UT	24	10	NM	29	20

By Metropolitan Statistical Area MSA File

During 2011 Q1, Los Angeles ranked highest among the 50 most populous metropolitan areas, based on volume of reported mortgage fraud subjects, followed by New York, Chicago, and Miami.

Per capita, California cities dominated the list of metro areas for reported mortgage fraud subjects, with California MSAs holding the top five ranks. San Jose moved from 3rd in the previous quarter to the top ranked MSA, while Sacramento leapt from the 15th to the 5th rank. Most significantly, Miami dropped to sixth in per capita rankings after five years among the top two most reported metropolitan areas.

Table 5: Mortgage Loan Fraud SAR Subjects
Top 20 Metropolitan Statistical Areas (MSAs)

MSA	2011 Q1 Rank by volume	2011 Q1 Rank per capita		MSA	2011 Q1 Rank by volume	2011 Q1 Rank per capita
San Jose-Sunnyvale-Santa Clara, CA	9	1		Chicago-Naperville-Joliet, IL-IN-WI	3	11
San Francisco-Oakland-Fremont, CA	4	2		Washington-Arlington-Alexandria, DC-VA-MD-WV	8	12
Los Angeles-Long Beach-Santa Ana, CA	1	3		Tampa-St. Petersburg-Clearwater, FL	19	13
Riverside-San Bernardino-Ontario, CA	6	4		New York-Northern New Jersey-Long Island, NY-NJ-PA	2	14
Sacramento--Arden-Arcade--Roseville, CA	12	5		Orlando-Kissimmee, FL	23	15
Miami-Fort Lauderdale-Pompano Beach, FL	5	6		St. Louis, MO-IL	21	16
San Diego-Carlsbad-San Marcos, CA	10	7		Seattle-Tacoma-Bellevue, WA	17	17
Las Vegas-Paradise, NV	20	8		Phoenix-Mesa-Scottsdale, AZ	11	18
Atlanta-Sandy Springs-Marietta, GA	7	9		Richmond, VA	35	19
Salt Lake City, UT	26	10		Denver-Aurora-Broomfield, CO	22	20

By County

County File

Continuing from the last quarter, Los Angeles and Cook counties remained the top two reported counties in volume for reported mortgage fraud subjects.

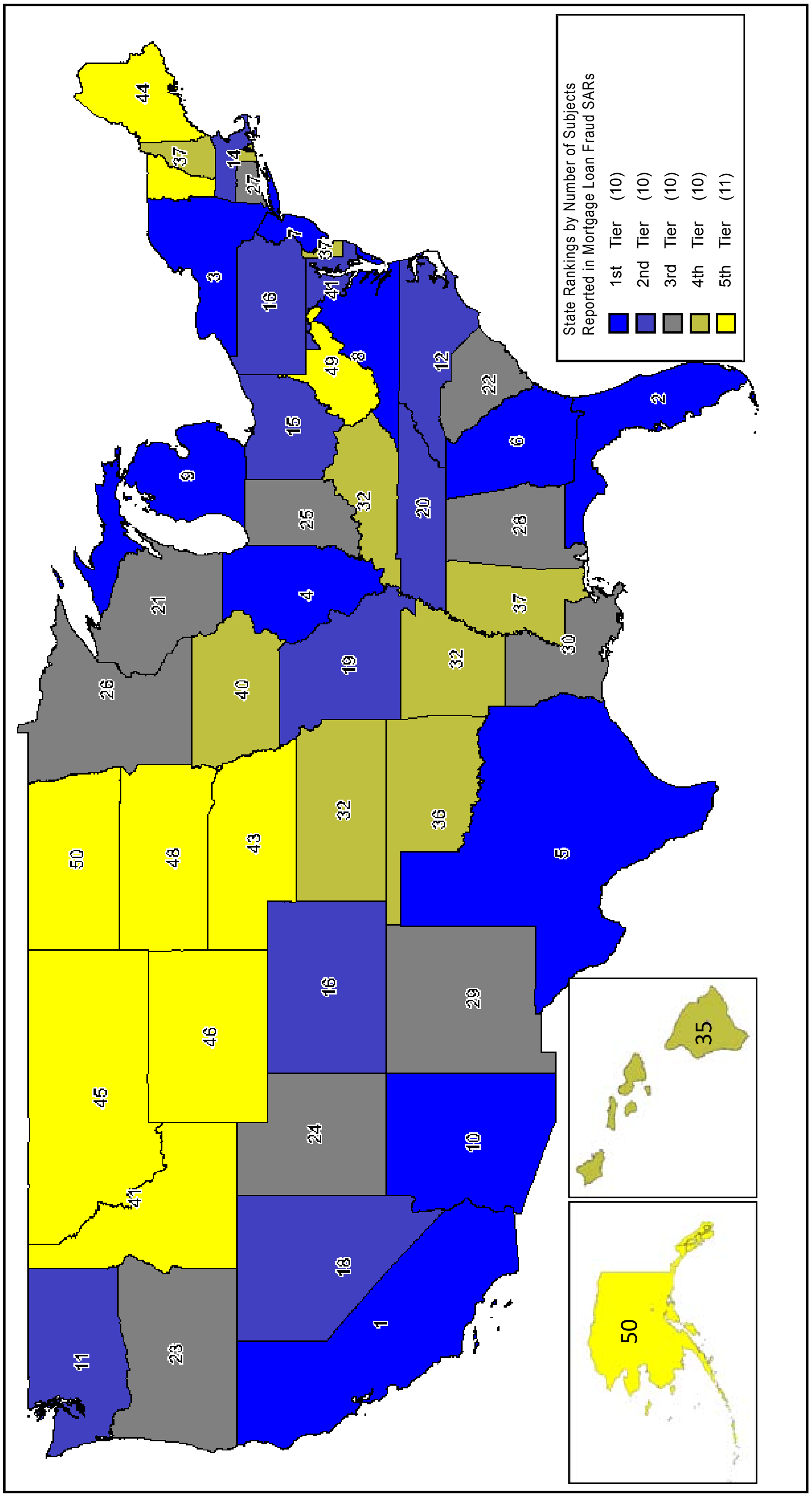
Among the 100 most populous U.S. counties, 5 California counties moved into the top ten list of mortgage fraud subjects per capita, most notably Sacramento, which jumped to 6th from its 37th ranking in the preceding quarter. Following four years among the top two most reported metropolitan areas (per capita), Miami-Dade dropped to the 14th ranked county for mortgage fraud subjects. Similarly, Broward County dropped to the 11th rank after four years among the top 6.

Table 6: Mortgage Loan Fraud SAR Subjects
Top 20 Counties

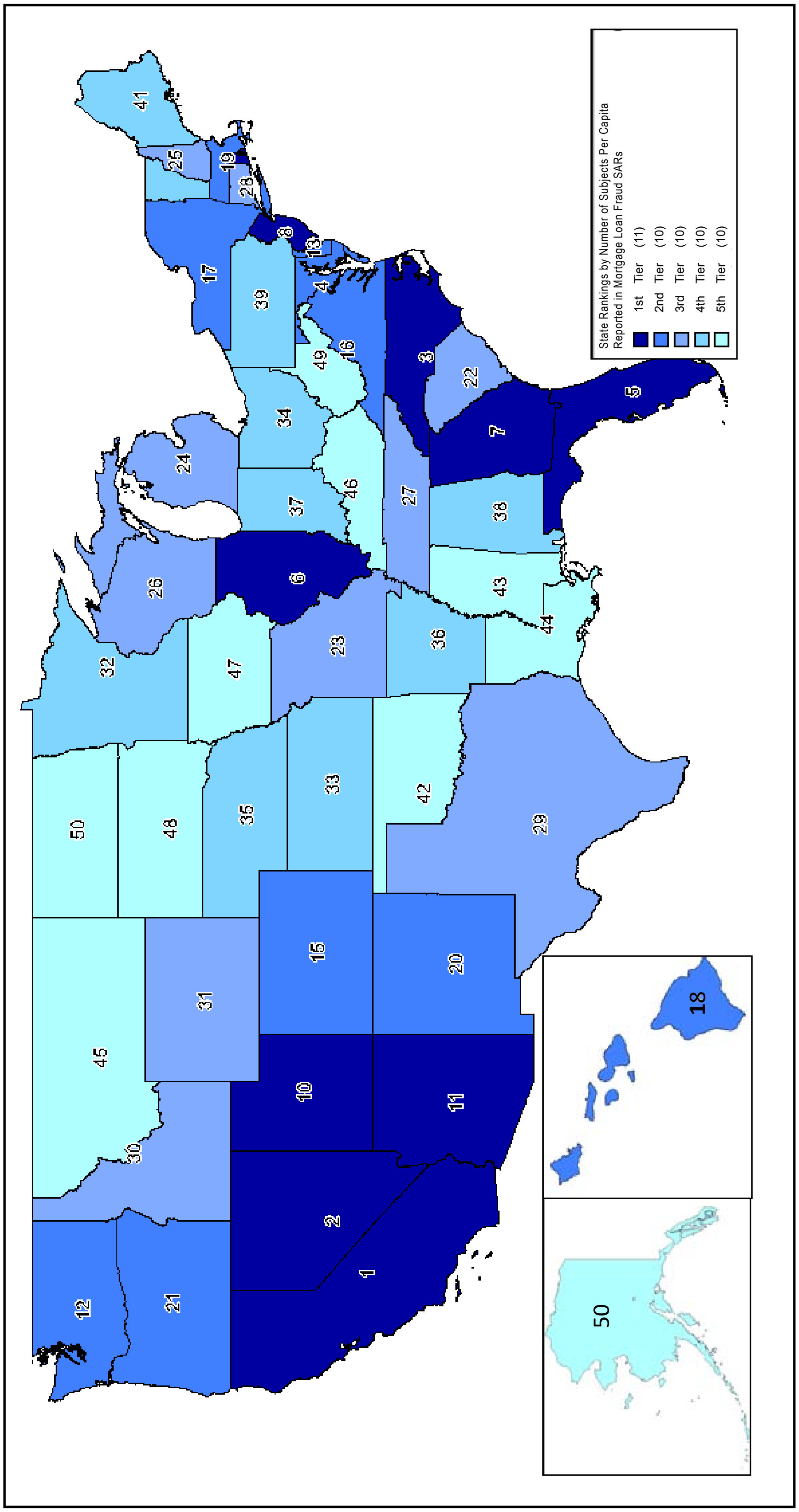
County	State	2011 Q1 Rank by volume	2011 Q1 Rank per capita		County	State	2011 Q1 Rank by volume	2011 Q1 Rank per capita
Santa Clara	California	4	1		Broward	Florida	12	11
San Mateo	California	19	2		Monmouth	New Jersey	39	12
Alameda	California	9	3		Essex	New Jersey	31	13
Orange	California	3	4		Miami-Dade	Florida	7	14
Riverside	California	5	5		San Bernardino	California	10	15
Sacramento	California	13	6		Fulton	Georgia	23	16
Fairfax	Virginia	19	7		Nassau	New York	18	17
Los Angeles	California	1	8		San Diego	California	6	18
Contra Costa	California	21	9		DuPaee	Illinois	28	19
Gwinnett	Georgia	26	10		Clark	Nevada	14	20

The following maps show mortgage fraud geographic concentrations reported in 2011 Q1 for activities occurring during the previous two calendar years (i.e. 2009 Q1 –2011 Q1). Maps show subjects by state and metropolitan area, with concentrations based on numeric and per capita subject totals.

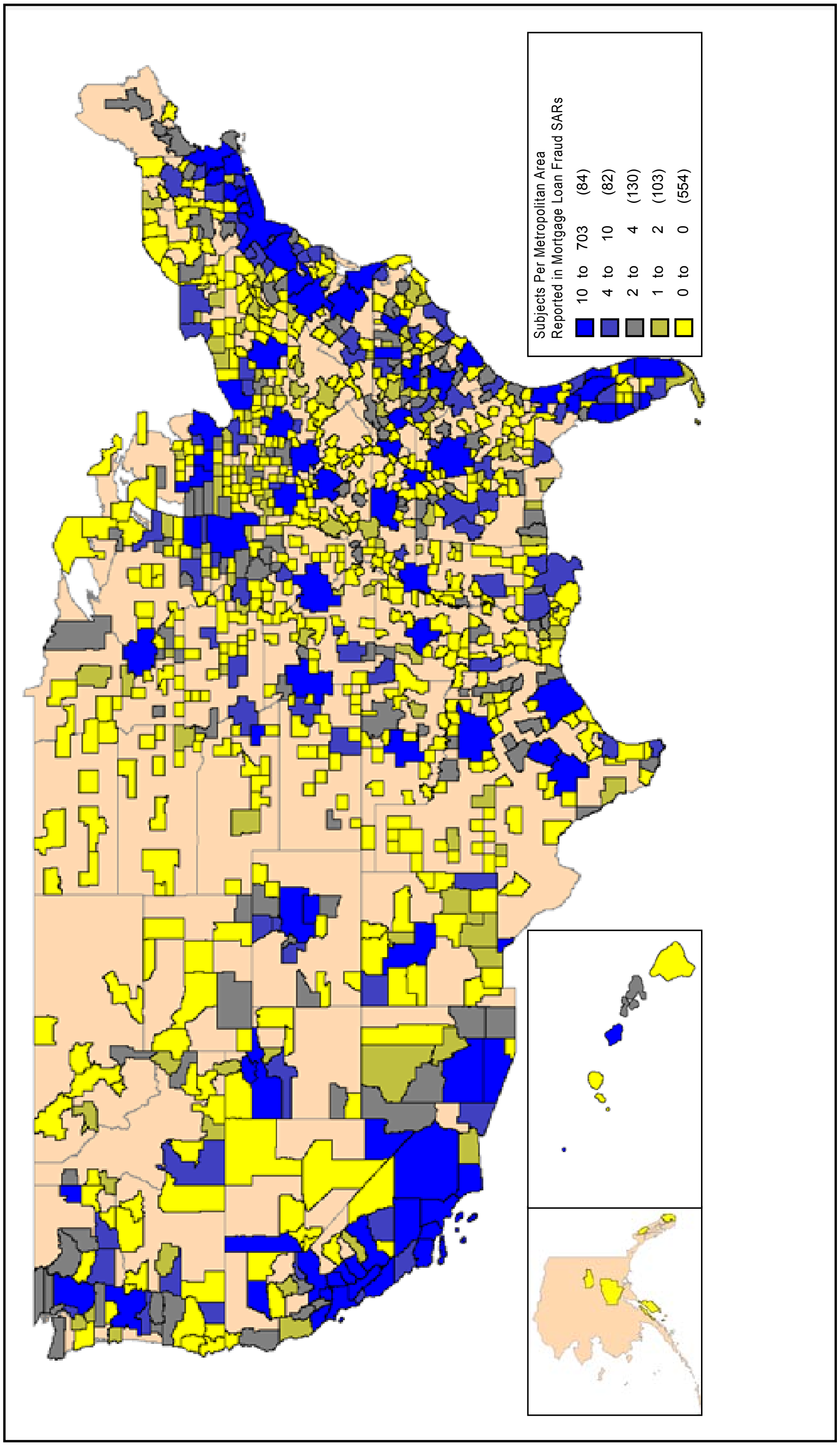
Mortgage Loan Fraud SAR Subjects
State Location Ranks, January – March, 2011



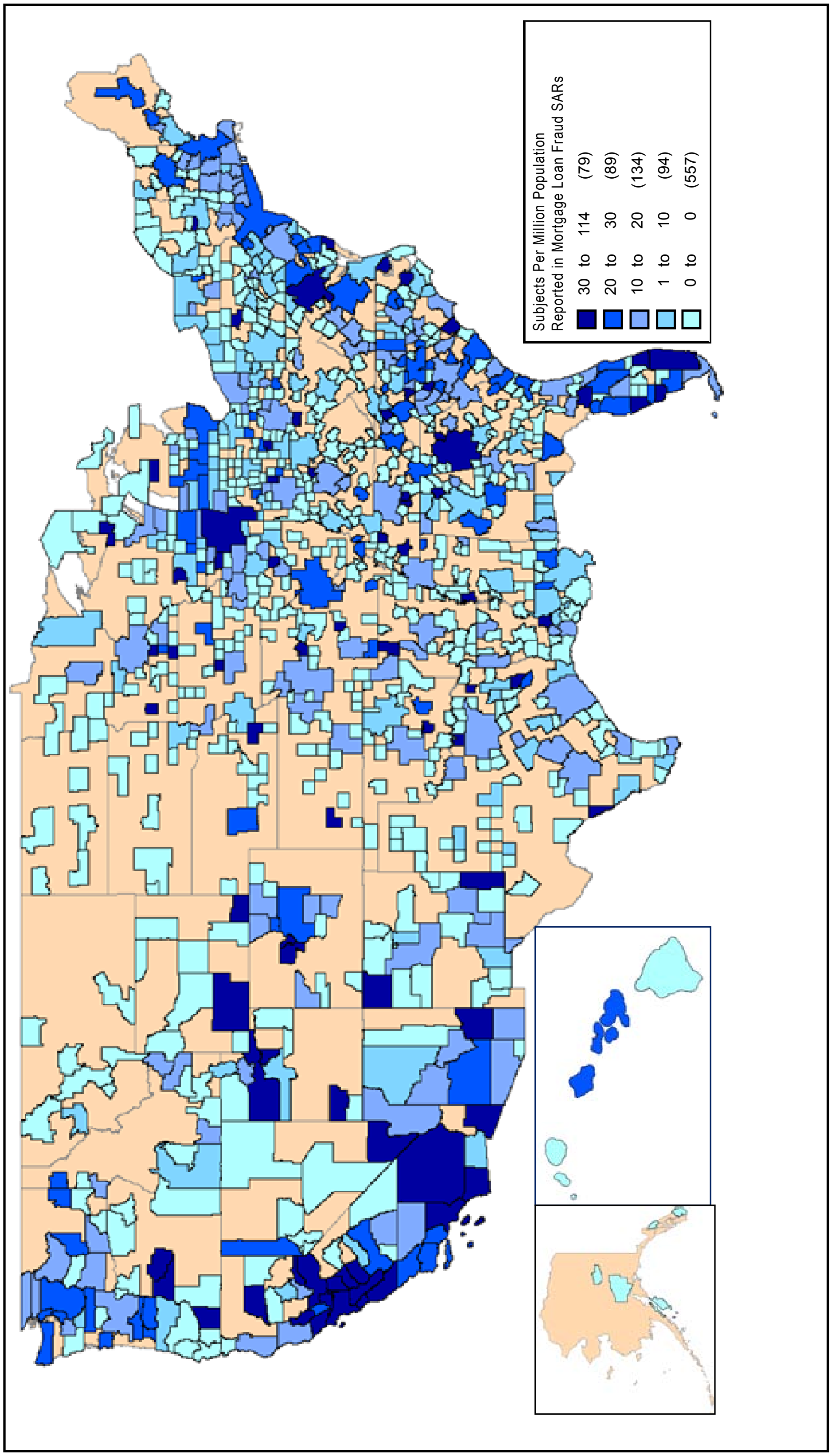
Mortgage Loan Fraud SAR Subjects Per Capita
State Location Ranks, January — March, 2011



Mortgage Loan Fraud SAR Subjects
Top Metropolitan Areas, January – March, 2011



Mortgage Loan Fraud SAR Subjects Per Capita
Top Metropolitan Areas, January — March, 2011



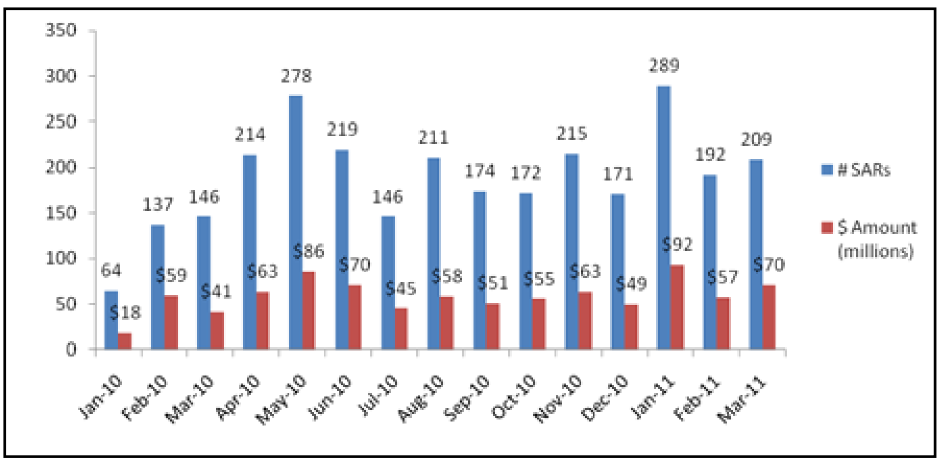
Current Issues

In this section, FinCEN addresses a variety of topics related to mortgage loan fraud. This quarterly report updates statistics on SARs related to federal mortgage relief programs, and SARs which discuss suspicious activities 90 or fewer days old.

SARs involving Federal Mortgage Relief Programs

In the 2010 Q2 and Q4 MLF reports, FinCEN highlighted suspected fraud targeting government sponsored mortgage relief programs.[8] FinCEN monitors SARs for such incidents in partnership with the Special Inspector General, Troubled Asset Relief Program (SIGTARP). In CY 2010, FinCEN received a monthly average of 179 such SARs totaling $54.7 million in suspicious activity. During 2011 Q1, monthly averages were higher, at 230 SARs and $73 million in suspicious activity. The most common reported suspicious activities were discrepancies in customer information, such as income, employment, occupancy, or social security number, submitted in the original loan and mortgage relief applications.

Figure 1: 2010-2011 SARs Referencing Federal Mortgage Relief Programs



8. For details, see page 22 of FinCEN's Mortgage Loan Fraud Update, April 1- June 30, 2010, at http://www.fincen.gov/news_room/rp/files/MLF_Update_2nd_Qtly_10_FINAL.pdf and pages 13-14 of FinCEN's Mortgage Loan Fraud Update, January 1-31, 2010 at http://www.fincen.gov/news_room/rp/files/MLF_Update_4th_Qtly_10_FINAL_508.pdf.

Activities 90 or Fewer Days Old

To better understand the latest trends in reporting of suspected mortgage fraud, FinCEN examined a subset of quarterly filings that reported suspicious activity occurring within 90 days of filing.[9] In 2011 Q1, there were 1,562 MLF SARs with suspicious activities 90 or fewer days old.

FinCEN compared these SARs to the total 25,485 MLF SARs filed during the quarter. The most striking difference between the two sets of SARs was the reporting of "other" suspicious activities in Field 35s of the SAR. Filers reported "other" suspicious activities in three percent of all MLF SARs filed during the quarter, versus in 22 percent of the SARs with activities 90 or fewer days old (340 of 1562 SARs.)

Debt Elimination Scams

FinCEN then analyzed "other" terms that filers entered into Field 35s of these SARs with activities under 90 days old, and found that 80 percent contained the words "debt elimination." In addition, FinCEN compared the SARs with activity 90 or fewer days old to SARs it analyzed in 2010 CY for "other" suspicious activity, and found some significant differences, which are highlighted in Figure 2.[10] Most notably, filer usage of SAR Field 35s to indicate both "other" suspicious activity and "debt elimination" was much higher in the 2011 Q1 SARs with activity 90 or fewer days old than it was in SARs filed during calendar year 2010.[11]

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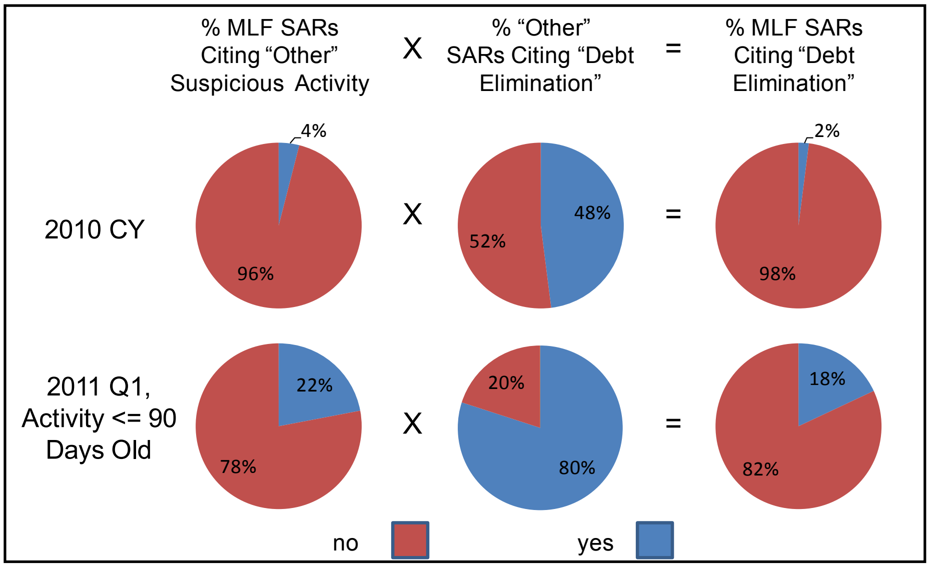
9. FinCEN determined this by subtracting the suspicious activity "from" date in SAR Field 33 from the date when the SAR entered the BSA database. SARs with a difference of 90 days or less between entry date and activity "from" date were included in the sample.

10. In 2010, FinCEN twice analyzed MLF SAR filings that noted "other" suspicious activity as described by filers in Field 35s of the SAR, see http://www.fincen.gov/news_room/rp/files/MLF_Update_3rd_Qtly_10_FINAL.pdf and http://www.fincen.gov/news_room/rp/files/MLF_Update_4th_Qtly_10_FINAL_508.pdf. In Q3 and CY 2010, these reports were three and four percent of all MLF SARs, respectively.

11. In 2010, FinCEN twice analyzed debt elimination scams, see http://www.fincen.gov/news_room/rp/files/MLF_Update_3rd_Qtly_10_FINAL.pdf and http://www.fincen.gov/news_room/rp/files/MLF_Update_4th_Qtly_10_FINAL_508.pdf. In Q3 and CY 2010, however, about two percent of MLF SARs so indicated debt elimination schemes (48 percent of 4 percent), versus 18 percent of 2011 Q1 MLF SARs with activities less than 90 days old (80 percent of 22 percent).

Figure 2: MLF SARs indicating "Other" Activities and Debt Elimination Schemes



Within the narratives of 273 MLF SARs related to debt elimination schemes, filers described numerous bogus documents and payment methods that customers and third parties submitted to financial institutions in attempts to have their mortgage obligations eliminated. Fraudulent document types included "Notice of Tender for Setoff," "money order receipt," and "bonded promissory note." Filers primarily described these activities in Field 35s as "debt elimination," but occasionally noted them as "foreclosure rescue scam."

To address the growing debt elimination problem with respect to mortgage loans, credit cards, and other forms of consumer debt, FinCEN is collaborating with the U.S. Trustee's Office, Federal Deposit Insurance Corporation, Federal Trade Commission, and National Association of Attorneys General. Joint goals are to investigate and prosecute those perpetrating debt elimination scams and to protect consumers and financial institutions from the scammers.

Other Activities

FinCEN also reviewed Field 35s and the narratives of the 67 MLF SARs 90 or fewer days old discussing "other" activities besides debt elimination scams. Filers of these reports described suspicious activities such as loan modification and foreclosure rescue scams,[12] flopping,[13] and falsified claims of identity theft.[14]

12. http://www.fincen.gov/news_room/rp/files/MLFLoanMODForeclosure.pdf
13. http://www.fincen.gov/news_room/rp/files/MLF_Update_4th_Qtly_10_FINAL_508.pdf
14. http://www.fincen.gov/news_room/rp/reports/pdf/ID%20Theft.pdf

For example, a filer described a scammer who had enticed a Spanish-only speaking homeowner into signing many loan modification documents in English. One of the documents turned over the home's title to the scammer. The scammer subsequently locked the borrower out of the home and listed it for sale. The filer noted this suspicious activity in SAR Field 35s as "title theft."

Another foreclosure rescue scam involved a law firm and a third party that fabricated grant deeds with additional "homeowner" names and sent them to loan servicers to delay foreclosure proceedings. The filer termed this in Field 35s as "fraudulent grant deed."

Filers called a scam using letters to consumers and claiming endorsement by a major bank "mail fraud" in Field 35s, and called a scam claiming affiliation with a government agency "loan modification scam." Filers also used the terms "foreclosure rescue scam," and "advance fee scheme" In Field 35s to describe similar scams.

A number of SARs described flopping (which occurs when a house purchased as a short sale is immediately sold for a substantial profit), although filers often categorized the activity as "short sale fraud" in Field 35s. In one SAR, a former bank employee helped facilitate numerous short sales, which the buyer flipped within days of the short sale for profits ranging from 15 to 300 percent. In another, a filer described a "short sale flop" that would have yielded a nearly 100 percent gain, but the filer stopped the sale upon discovering the property listed with a realtor for nearly double the short sale price.

Some SARs related "false identity theft," including one in which the customer had clearly tried to create the impression of identity theft to have her mortgage obligations forgiven. In another, the bank concluded that an elderly woman had forgotten about applying for a second mortgage, and it deemed her false claim of identity theft a consequence of advanced age.

Income misrepresentation, which FinCEN has seen in mortgage loan fraud SARs for years, was still a common activity. In about a dozen SARs, unemployed or underemployed subjects and small business owners falsified income records such as tax returns, W-2 forms, and pay stubs to qualify for new mortgage loans or loan modifications, including government-sponsored modifications. In several such narratives, the financial institutions also referred the cases to the IRS for suspected tax evasion. Filers described these activities in Field 35s under a variety of terms, including "tax evasion," "false tax returns," "altered docs," "modification fraud" and "modification documentation fraud."

Filers also noted occupancy fraud in a number of very recent SARs, typically discovered because subjects' mailing addresses did not match property addresses on loan documents. In one such SAR, the filer determined that the subject, who applied for government-sponsored mortgage relief on his "primary" residence, actually owned dozens of properties worth tens of millions, and lived in another state. The filer noted this in Field 35s as "tax evasion," although filers more commonly labeled such SARs as "occupancy fraud."

A number of recent "other" activities included requests to update social security numbers (SSNs) in mortgage loan files. Filers' record checks most often indicated that the new SSNs did not match names on the loan files, or that the original SSNs in the loan documents were inaccurate.

A few noteworthy "other" activities, each found in one very recent SAR, included:

- A granddaughter with power of attorney signed an agreement to sell her grandmother's home to a financial partner for far less than the home was worth. In Field 35s, the filer noted "elder financial abuse."

- A realtor referred a potential homebuyer to two "loan officers" who purportedly worked for the filer in a non-branch location. The buyer was told these "loan officers" could work around his credit problems, but not if he asked for them by name at the bank branch. In Field 35s, the filer noted "predatory lending."

- A case of identity theft, facilitated by forwarding a customer's home phone calls to an overseas cell phone number. The fraudster attempted to transfer money out of the customer's home equity line of credit, but signatures and voice recordings did not match those of the customer. In Field 35s, the filer referenced this "other" activity as "home equity loan & telephone fraud."

- A case of computer intrusion, in which a third party automated clearing house (ACH) originator's login information was breached. The subject attempted to transfer money from several customer accounts at the filing bank, at least one of which was mortgage-related. The filer labeled this activity "D ACH batch origination" in Field 35s of the SAR and contacted law enforcement.

FinCEN will continue to monitor SARs and report on new trends in mortgage fraud and associated types of suspicious activity.

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