Mortgage Loan Fraud *Update*

Suspicious Activity Report Filings from January 1-December 31, 2010

March 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 December 2010 (CY 2010), with a particular emphasis on the 4th Quarter of CY 2010 (2010 Q4). It provides new information on reporting activities, geographic locations, and other filing trends in Q4 and CY 2010. This update includes tables and illustrations of various geographies that compare Q4 and CY 2010 filings based on the dates on which the suspicious activities are reported to have begun. Tables covering non-geographic aspects are compared with filings from corresponding periods in 2009.

A Year in Review section provides updated statistics for CY 2010 on special issues described previously in FinCEN mortgage reports during 2010.

Summary of Filings

In CY 2010, filers submitted 70,472 Mortgage Loan Fraud SARs (MLF SARs), a 4 percent increase over the previous year.[1] In 2010 Q4, filers submitted 18,759 MLF SARs, a 1 percent decrease in filings over the same period in 2009.[2] In comparison, the total number of SARs filed in 2010 Q4 increased by 3 percent. Eleven percent of all SARs filed in 2010 Q4 indicated MLF as an activity characterization, the same percentage as in Q4 of the previous year.[3]

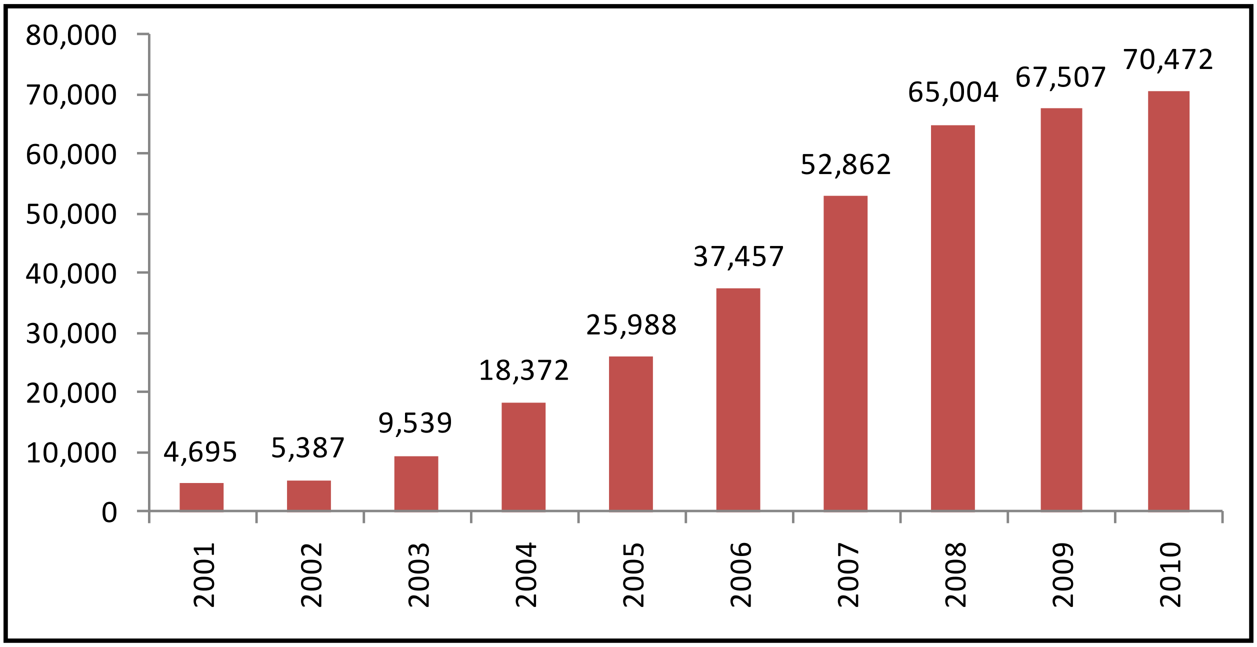
Table 1: Mortgage Loan Fraud SAR Filings Relative to All SAR Filings

	2010 Q4	2009 Q4	CY 2010	CY 2009
MLF SARs	18,759 (-1%)	18,884	70,472 (+4%)	67,507
All SARs	176,912 (+3%)	172,358	697,389 (-3%)	720,309
MLF SARs as a proportion of all SARs	11%	11%	10%	9%

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 have constituted approximately 9 percent of all SARs filed since 2007 Q4. See FinCEN's January 2010 report, "*Mortgage Loan Fraud Update, Suspicious Activity Report Filings from July 1 – September 30, 2010,*" at http://www.fincen.gov/news_room/rp/files/MLF_Update_3rd_Qtly_10_FINAL.pdf, page 3.

Since 2001, the number of MLF SARs filed has shown a consistent upward trend, albeit at a slower rate of growth in recent years (Figure 1).

Figure 1: Annual Mortgage Loan Fraud SAR filings, 2001-2010



Time lapses between filing and activity dates in 2010 MLF SAR filings showed a continued focus on older activities. In CY 2010, 77 percent of reported activities occurred more than 2 years prior to filing, compared to 56 percent in CY 2009. In 2010 Q4, 82 percent of reported activities occurred more than 2 years prior to filing, compared to 66 percent in 2009 Q4 (Table 2).

For CY 2010, a majority of activities occurred 2 to 4 years prior to filing. For 2010 Q4 filings, a majority of activities occurred 3 to 5 years prior to filing. For both CY 2010 and 2010 Q4 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.

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*. [note to reviewer: report cited in previous footnote]

Table 2: Mortgage Loan Fraud SARs Time Elapsed from Activity Date to Reporting Date[5]					
Time Lapsed	**2010 Q4**	**2009 Q4**		**CY 2010**	**CY 2009**
0 - 90 days	8%	12%		11%	12%
90 - 180 days	4%	5%		4%	6%
180 days - 1 year	3%	5%		3%	6%
1 - 2 years	3%	12%		4%	**21%**
2 - 3 years	13%	**33%**		**21%**	**30%**
3 - 4 years	**33%**	**25%**		**34%**	18%
4 - 5 years	**25%**	6%		15%	5%
> 5 years	11%	2%		7%	3%

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 9 percent of 2010 Q4 MLF SARs. In previous periods, much fewer SARs included this information; hence, totals relying on activity end dates are 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.

During all periods in this review, more than 85 percent of MLF SARs involved suspicious activity amounts under $500,000. A third or less of MLF SARs disclosed loss amounts (19 percent in 2010 Q4 and 31 percent in 2009 Q4); most of these amounts were also under $500,000. Consistent with previous years, a relatively small number of MLF SARs (42 filings) included recovered amounts in CY 2010.[6]

Table 3: Mortgage Loan Fraud 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**	2010 Q4	3,096 16%	6,961 37%	6,059 32%	1,628 9%	514 3%	435 2%	66 -
	2009 Q4	3,255 17%	7,235 38%	5,757 30%	1,654 9%	414 2%	313 2%	256 1%
	CY 2010	13,770 20%	24,888 35%	21,638 31%	9,625 14%	13 -	25 -	503 1%
(2) SARs reporting **loss amounts**	2010 Q4	1,731 9%	1,192 6%	454 2%	138 1%	54 -	16 -	15,174 81%
	2009 Q4	1,514 8%	3,365 18%	768 4%	174 1%	38 -	33 -	12,992 69%
	CY 2010	7,483 11%	4,607 7%	2,124 3%	531 1%	159 -	78 -	55,480 79%

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

The following tables rank states, metropolitan areas, and counties based on the number of subjects in Q4 and CY 2010 MLF SARs with suspicious activity dates starting after January 1, 2008. 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 PDF State Excel

In both CY 2010 and 2010 Q4, California and Florida were the highest ranked states based on total numbers of subjects, followed by New York and Illinois. These four states consistently had the highest rankings every quarter of 2010.

For both the quarter and year, Nevada had the highest number of MLF subjects per capita, followed by Florida, California, and Illinois. This was a change from 2010 Q3, when Florida was 1st in MLF subjects per capita and Nevada 3rd. In addition, Hawaii jumped in the Q4 rankings to 10th in MLF subjects per capita, up from 13th in Q3 and 26th in Q2.

Table 4: Mortgage Loan Fraud SAR Subjects Top 10 States and Territories

State	CY 2010 Rank by volume	CY 2010 Rank per capita		State	2010 Q4 Rank by volume	2010 Q4 State Rank per capita
NV	14	1		NV	14	1
FL	2	2		FL	2	2
CA	1	3		CA	1	3
IL	4	4		IL	4	4
GA	5	5		NC	11	5
AZ	8	6		AZ	8	6
NC	13	7		GA	5	7
UT	22	8		UT	24	8
MD	11	9		NY	3	9
NY	3	10		HI	30	10

By Metropolitan Statistical Area

MSA PDF MSA Excel

During 2010 Q4, Los Angeles ranked highest among the 50 most populous Metropolitan Statistical Areas (MSAs), based on total MLF subjects, followed by New York, Chicago, and Miami. Per capita, Miami ranked highest, followed by Orlando, San Jose and Riverside, CA.

For CY 2010, rankings varied only slightly from Q4. New York ranked highest in annual MLF subjects, followed by Los Angeles, Chicago, and Miami. Miami still ranked highest in subjects per capita, with Las Vegas taking the 2nd spot, and San Jose and Riverside, CA retaining 3rd and 4th rankings.

With the exception of Miami, which consistently ranked as the top MSA in MLF subjects per capita, other metro areas moved considerably in their per capita rankings. For example Orlando, which ranked 2nd in Q4, moved up from 4th in Q3 and 8th in Q2. Meanwhile Atlanta, which ranked 2nd per capita in Q2, moved down to 10th in Q4.

Table 5: Mortgage Loan Fraud SAR Subjects
Top 10 Metropolitan Statistical Areas (MSAs)

MSA	CY 2010 Rank by volume	CY 2010 Rank per capita	MSA	2010 Q4 Rank by volume	2010 Q4 Rank per capita
Miami-Fort Lauderdale-Pompano Beach, FL	3	1	Miami-Fort Lauderdale-Pompano Beach, FL	4	1
Las Vegas-Paradise, NV	14	2	Orlando-Kissimmee, FL	11	2
San Jose-Sunnyvale-Santa Clara, CA	15	3	San Jose-Sunnyvale-Santa Clara, CA	14	3
Riverside-San Bernardino-Ontario, CA	6	4	Riverside-San Bernardino-Ontario, CA	5	4
Los Angeles-Long Beach-Santa Ana, CA	2	5	Las Vegas-Paradise, NV	16	5
Orlando-Kissimmee, FL	13	6	Los Angeles-Long Beach-Santa Ana, CA	1	6
Atlanta-Sandy Springs-Marietta, GA	5	7	Chicago-Naperville-Joliet, IL-IN-WI	3	7
Chicago-Naperville-Joliet, IL-IN-WI	4	8	San Francisco-Oakland-Fremont, CA	7	8
Phoenix-Mesa-Scottsdale, AZ	8	9	Detroit-Warren-Livonia, MI	9	9
Washington-Arlington-Alexandria, DC-VA-MD-WV	7	10	Atlanta-Sandy Springs-Marietta, GA	6	10

By County

County PDF County Excel

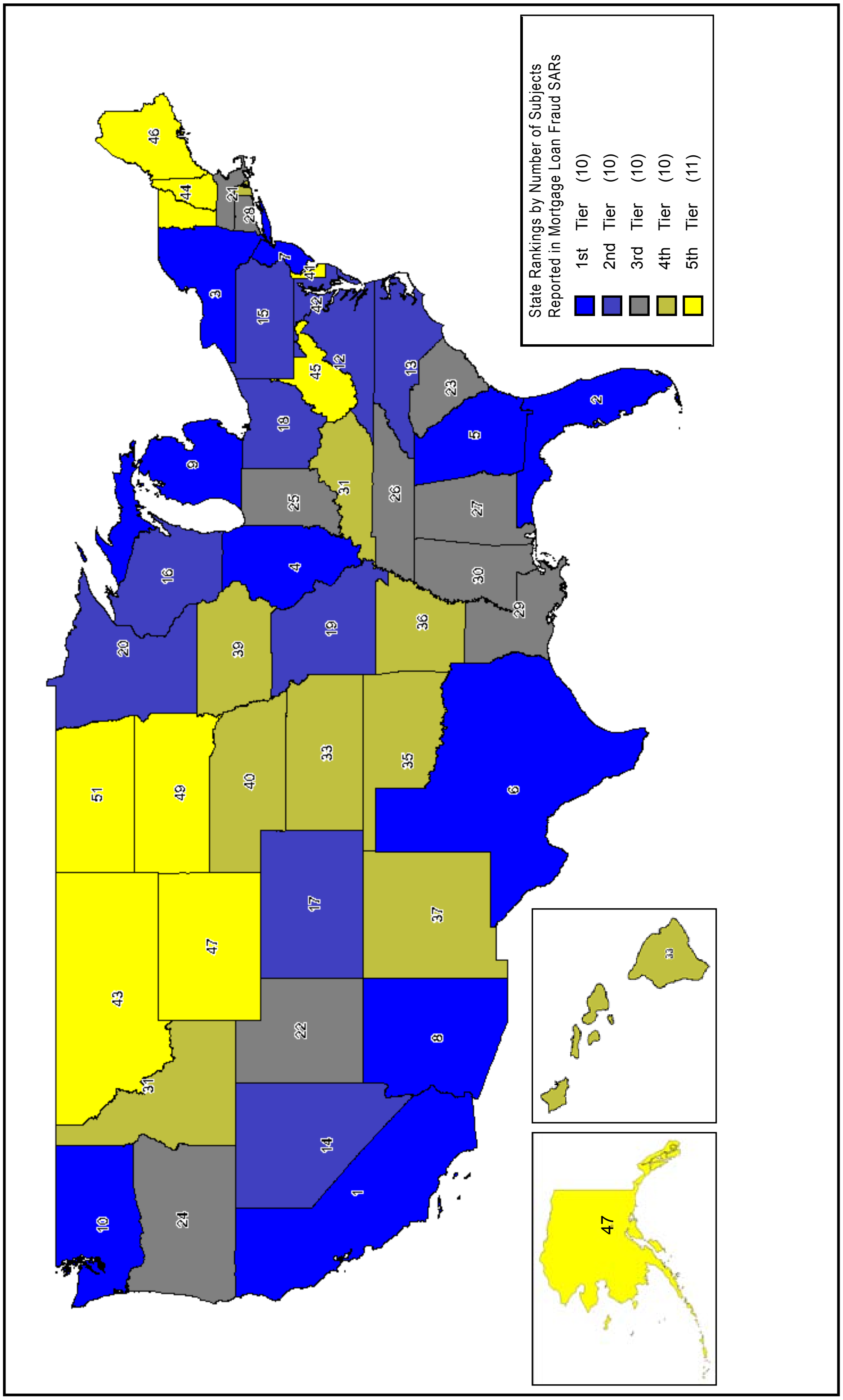
Of the 100 most populous U.S. counties, two Florida and one Georgia jurisdiction had the most subjects per capita during both Q4 and CY 2010; Miami-Dade, Broward and Gwinnett (Table 7). They were followed by varying New York and California counties. Clark County, Nevada consistently ranked 10th in subjects per capita in both Q4 and CY 2010.

Table 6: Mortgage Loan Fraud SAR Subjects Top 10 Counties

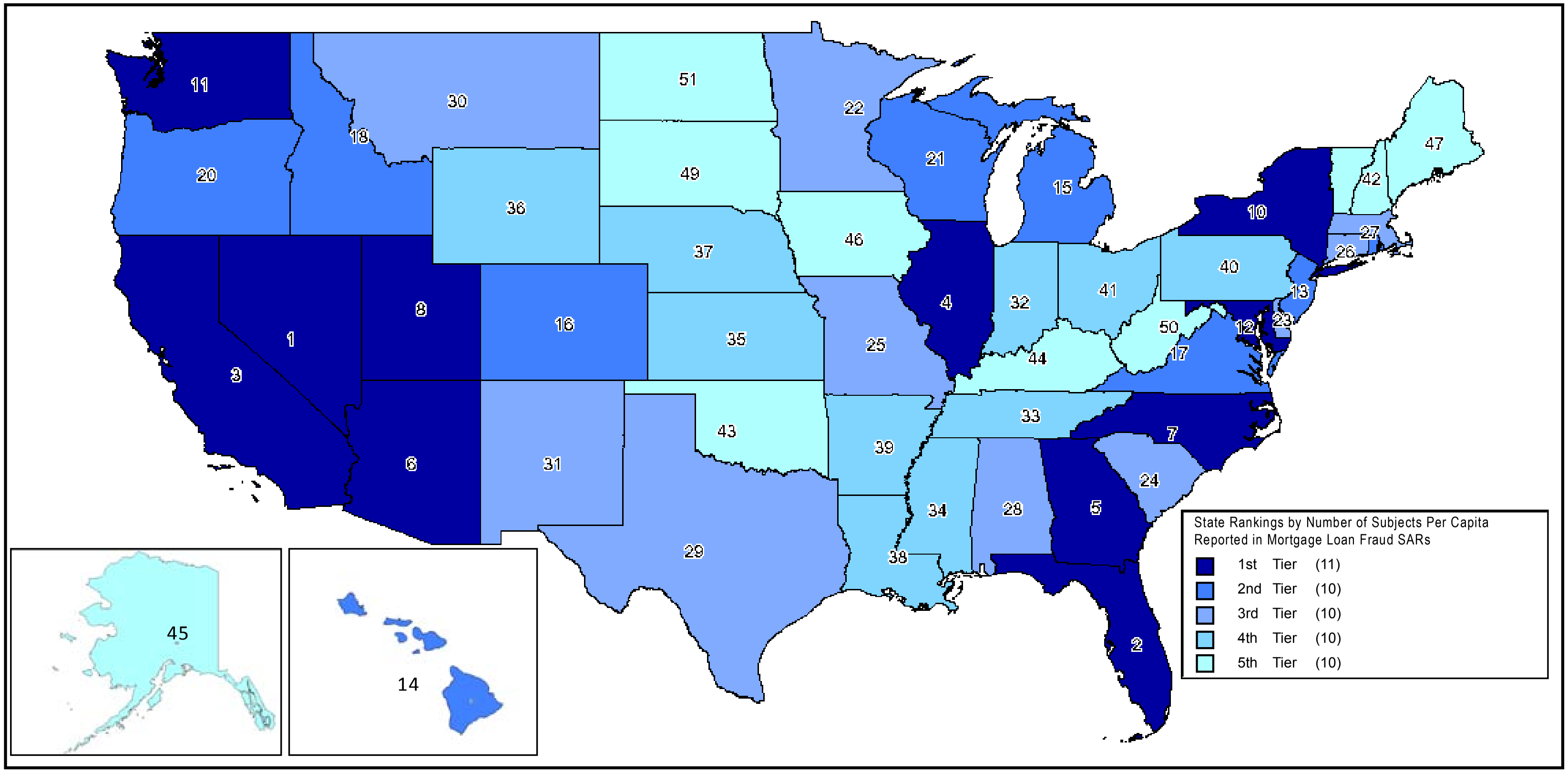
County	State	CY 2010 Rank by volume	CY 2010 Rank per capita	County	State	2010 Q4 Rank by volume	2010 Q4 Rank per capita
Miami-Dade	Florida	3	1	Miami-Dade	Florida	3	1
Gwinnett	Georgia	16	2	Broward	Florida	7	2
Broward	Florida	7	3	Gwinnett	Georgia	21	3
Orange	Florida	18	4	Orange	California	4	4
Nassau	New York	14	5	Queens	New York	6	5
Queens	New York	6	6	Riverside	California	9	6
Orange	California	5	7	Santa Clara	California	11	7
Fulton	Georgia	22	8	Orange	Florida	17	8
Riverside	California	8	9	Cook	Illinois	2	9
Clark	Nevada	12	10	Clark	Nevada	12	10

The following maps show mortgage fraud geographic concentrations reported in CY 2010 for activities occurring during the previous two calendar years (i.e. CY 2008 – CY 2010). Maps show subjects by state and metropolitan area, with concentrations based on numeric and per capita subject totals.

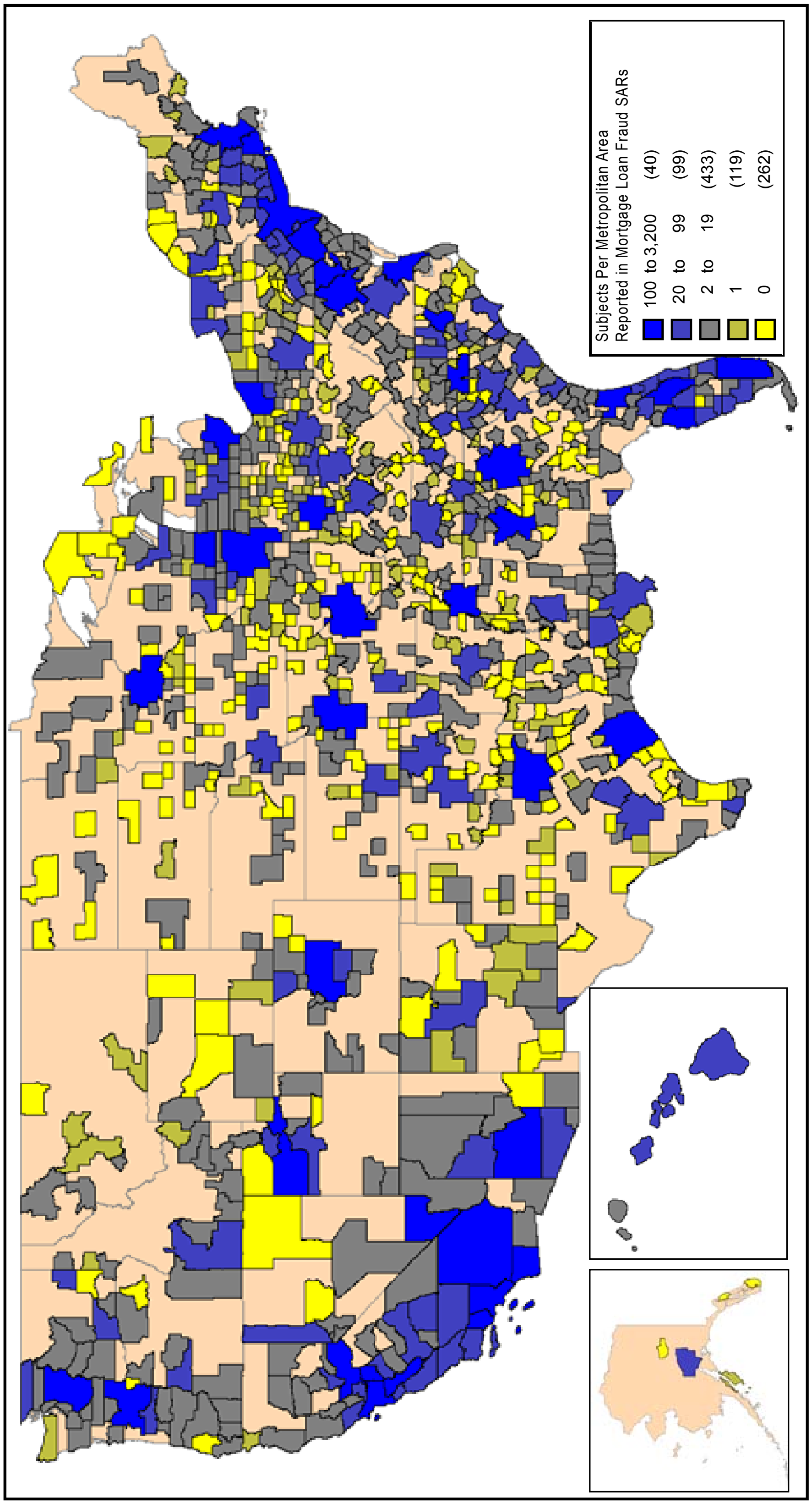
Mortgage Loan Fraud SAR Subjects
State Location Ranks, January — December, 2010



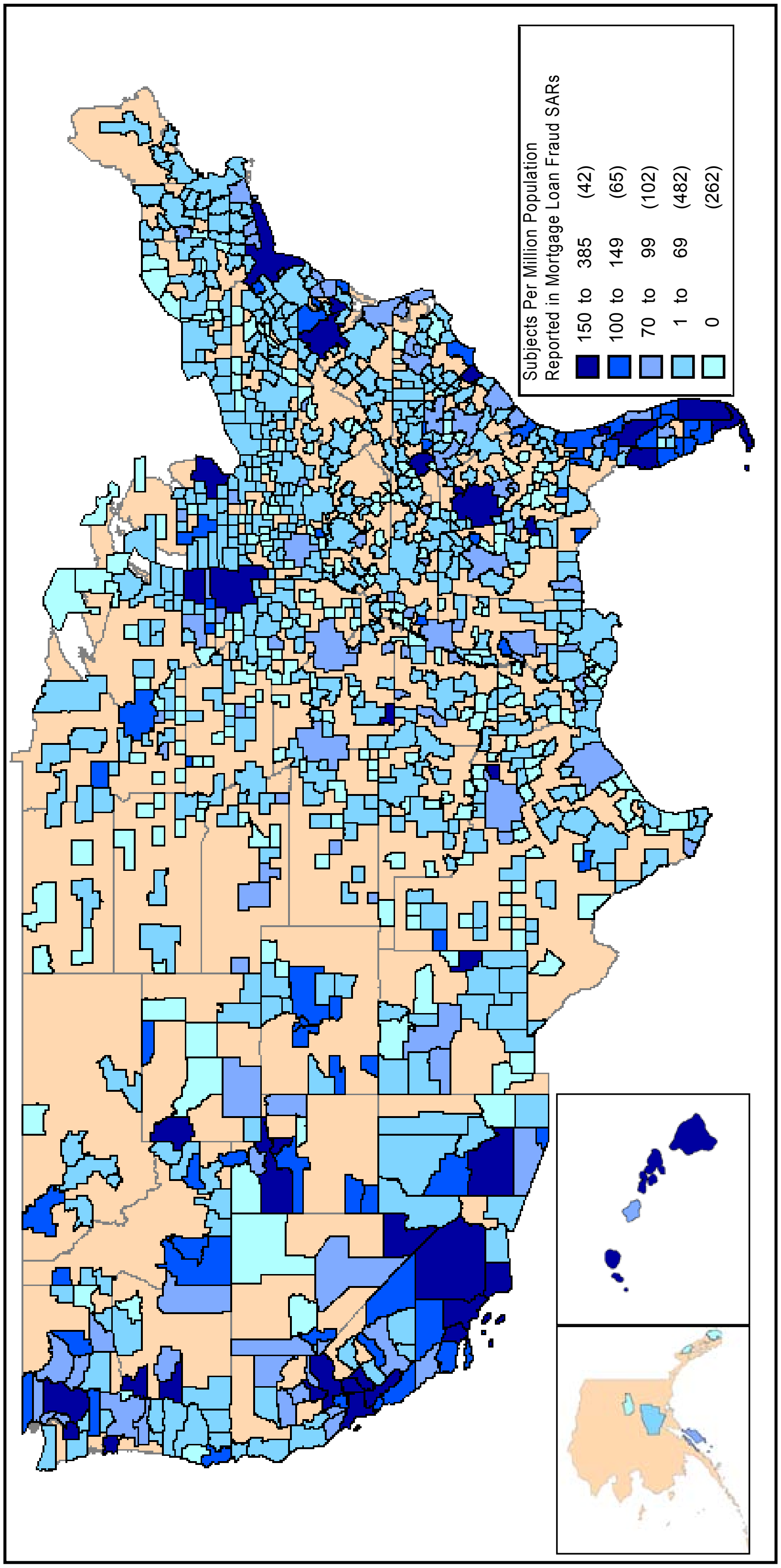
Mortgage Loan Fraud SAR Subjects Per Capita
State Location Ranks, January — December, 2010



Mortgage Loan Fraud SAR Subjects
Top Metropolitan Areas, January — December, 2010



Mortgage Loan Fraud SAR Subjects Per Capita
Top Metropolitan Areas, January — December, 2010



Year in Review

During 2010, FinCEN addressed special topics related to mortgage loan fraud in the Current Issues section of its quarterly mortgage loan fraud reports. This "Year in Review" section updates these topics for the calendar year.

In Q1, we addressed a new type of flipping scheme used in the context of short sales, termed "flopping" by industry and law enforcement.[8] Flopping occurs when a distressed property is sold at an artificially low price to a straw buyer, who quickly sells the property at a higher price and pockets the difference.

During Q1, however, there were only two instances of flopping described in MLF SARs. Over the course of 2010, MLF SAR references to flopping increased significantly, appearing in 112 SARs. Based on FinCEN's recent conversations with law enforcement partners, these statistics likely under-represent the occurrences of "flopping" schemes, because both law enforcement authorities and SAR filers are unfamiliar with the term. Use of related terms such as "short sale" and "broker price opinion" or "BPO" were stable throughout 2010. Flopping SARs typically described relatively recent activity, with suspicious activity start dates averaging one and a quarter years and end dates averaging seven months before being reported on a SAR.

Table 7: Mortgage Loan Fraud SARs References to Flopping and Related Elements

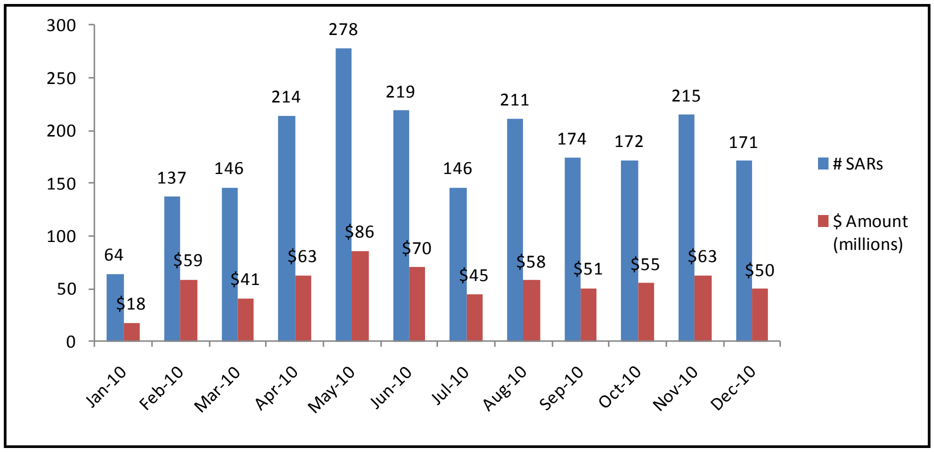
	2010 Q1	CY 2010
Flopping	2	112
Broker price opinion or BPO	41	228
Short sale	827	3,191

In Q2, FinCEN addressed fraud in government housing and mortgage finance relief efforts.[9] FinCEN continually monitors SARs for such reports in partnership with the Special Inspector General, Troubled Asset Relief Program (SIGTARP). During CY 2010, depository institutions and regulators submitted 2,147 SARs citing $675

8. For details, please see page 21 of FinCEN's Mortgage Loan Fraud Update, January 1- March 31, 2010, at http://www.fincen.gov/news_room/rp/files/MLF_Update_1st_Qtly_10_FINAL.pdf
9. For details, please 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

million in suspicious activity related to applications for government sponsored mortgage relief. On average, FinCEN received 179 such SARs totaling $54.7 million in suspicious activity per month in 2010.

Figure 2: 2010 SARs by Month Referencing Government Mortgage Relief Programs



Also in Q2, FinCEN addressed bankruptcy references in SAR filings.[10] As a member of the President's Financial Fraud Enforcement Task Force,[11] FinCEN is coordinating with the United States Trustee Program (USTP) and the Federal Bureau of Investigation (FBI) to identify potential abuses of the bankruptcy system that facilitate mortgage fraud.[12]

References to bankruptcy have steadily increased over time in MLF SAR filings. In CY 2010, 6 percent of all MLF SARs contained a key term related to bankruptcy in the narrative, compared to 1 percent in 2006 and 2007. In addition, during CY 2010 mortgage loan fraud was cited in 54 percent of all SARs referencing bankruptcy fraud, up from 42 percent in 2009. Some MLF reports specified the type of bankruptcy filing, most frequently Chapter 7 (specified in 27 percent of CY 2010 reports citing both bankruptcy and MLF).[13]

10. For details, please see page 21 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
11. For more information on the Financial Fraud Enforcement Task Force, see http://www.stopfraud.gov.
12. For more detail on bankruptcy fraud, see the joint FBI and USTP intelligence assessment, *US Bankruptcy System Exploited to Perpetrate Foreclosure Rescue Schemes*, May 2010, at http://www.justice.gov/ust/eo/public_affairs/reports_studies/docs/US_Bankr_Exp_Foreclosure_Schemes.pdf
13. The differences between these bankruptcy types are that Chapter 7 requires asset liquidation, Chapter 11 requires business reorganization, and Chapter 13 requires individual debt adjustment. http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics.aspx

Table 8: Bankruptcy (B/K) References In Mortgage Loan Fraud SAR Narratives						
Year	All SARs Indicating B/K	MLF SARs Indicating B/K	Total MLF SARs Filed	MLF SARs Specifying Chapter 7 B/K	MLF SARs Specifying Chapter 11 B/K	MLF SARs Specifying Chapter 13 B/K
2010	8,151	4,395	70,472	1,202	35	385
2009	8,345	3,479	67,507	1,073	43	389
2008	4,853	1,901	65,004	569	19	215
2007	3,061	748	52,862	167	22	125
2006	2,209	456	37,457	95	12	66
2005	1,879	433	25,988	89	-	54

In Q3, FinCEN analyzed MLF SAR filings that described "other" suspicious activities in Field 35s of the SAR, concurrently with mortgage fraud.[14] There were 2,631 such filings in CY 2010, comprising only 4 percent of all MLF SARs, and their nature continues to be similar to what FinCEN described in the last quarter.

While these "Other Activities" filings are limited in number, they reflect variations of a number of current issues. Table 9 classifies "other" activities based on key words used by filers. Nearly half of the filings involved debt elimination scams, while 13 percent included misrepresentation of income or employment. Another 13 percent were for Social Security number misuse and 9 percent loan modification fraud. All of these figures are within two percentage points of the statistics presented in the Q3 2010 report.

Table 9: CY 2010 Mortgage Loan Fraud SARs Characterizations of "Other" Suspicious Activity				
Debt elimination scam	48%		Occupancy fraud	1%
Misrepresentation of income or employment	13%		Straw buyer	1%
SSN fraud or theft	13%		Appraisal fraud	1%
Loan modification fraud	9%		Undisclosed	1%
Foreclosure rescue scams	4%		Forgery	1%
Fraud against federal housing recovery programs	2%		Ponzi scheme	-
Short sale fraud	2%		Unauthorized account access	-
Tax evasion	1%		Notary fraud	-

14. http://www.fincen.gov/news_room/rp/files/MLF_Update_3rd_Qtly_10_FINAL.pdf

www.FinCEN.gov