Mortgage Loan Fraud
Update

Suspicious Activity Report Filings In 1st Quarter 2012

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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 2012 (2012 Q1). It provides new information on reporting activities, geographic locations, and other filing trends in 2012 Q1. The update includes tables and illustrations of various geographies reported in 2012 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 2011.

A section on Current Issues analyzes SARs filed during 2012 Q1 that describe suspicious activity starting two or fewer years before the SAR filing.

Overall Fillings

In 2012 Q1, filers submitted 17,651 Mortgage Loan Fraud SARs (MLF SARs),[1] a 31 percent decrease over the previous year.[2] The total number of SARs filed in 2012 Q1 increased by 10 percent. Nine percent of all SARs filed in 2012 Q1 indicated MLF as an activity characterization, down from 14 percent in the year ago Q1.[3]

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

	2012 Q1	*2011 Q1*	*% Change*
MLF SARs	17,651	25,485	-31%
All SARs	205,301	186,331	10%
MLF SARs as a proportion of all SARs	9%	14%	-37%

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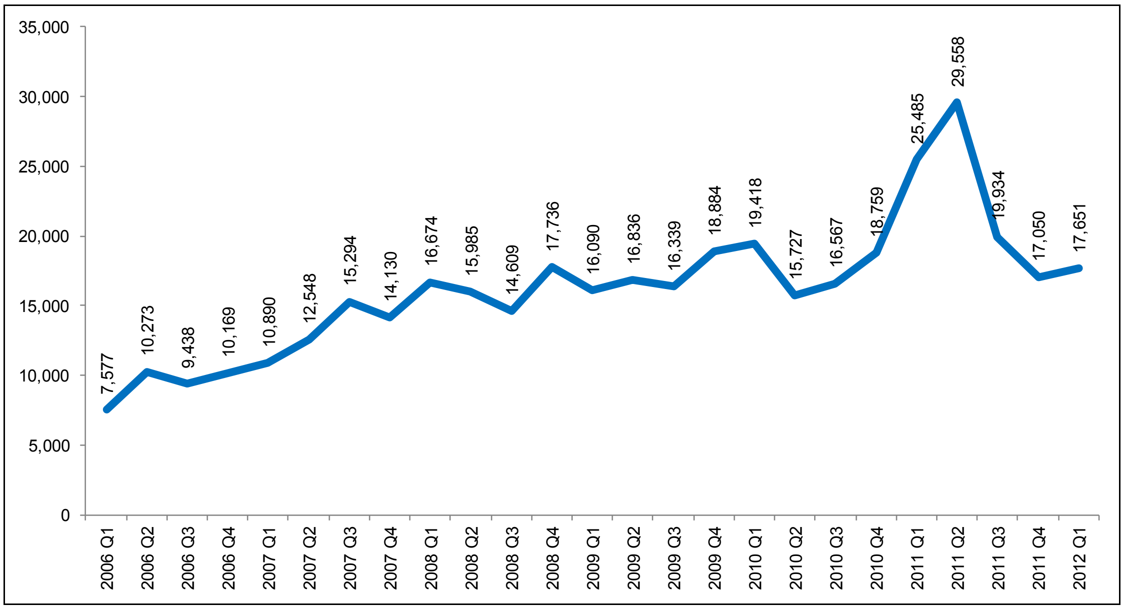
1. For purposes of this report, SARs and totals thereof refer only to the Suspicious Activity Report filed by depository institutions (TD F 90-22.47). Related activities reported on the Suspicious Activity Report by Money Services Business (FinCEN 109) and Suspicious Activity Report by Securities and Futures Industries (FinCEN 101) are not included in table or map totals. Percentages throughout this report are rounded to the nearest whole number.
2. An increase or decrease in filing is not necessarily indicative of an overall increase or decrease 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. The upward spike in 2011 MLF SAR counts was directly attributable to mortgage repurchase demands and special filings generated by several institutions.
3. MLF SARs have constituted 9 percent of all SARs filed since 2007 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.

As Figure 1 illustrates, FinCEN reported an unusual spike in MLF SAR filings during 2011 Q1 through Q3, primarily due to mortgage repurchase demands on banks. Those repurchase demands prompted review of mortgage loan origination and refinancing documents, where filers discovered fraud, which was then reported on SARs.

Figure 1: Quarterly MLF Filings, Q1 2006 through Q1 2012



Time lapses between filing and activity dates in 2012 Q1 MLF SAR filings showed continued focus on dated activities. In 2012 Q1, 82 percent of reported activities occurred more than two years prior to filing, and 72 percent occurred more than four years before filing. This compares to 85 percent and 42 percent, respectively, in 2011 Q1 (Table 2). Moreover, during 2012 Q1, 44 percent of all filings also described activities starting five or more years before filing, compared to only 17 percent the previous year. This increase in very dated SARs could indicate that filers are still working through the backlog of bad loans originated in the 2006-2007 housing bubble.

During both 2012 and 2011 Q1, a majority of reported activities actually began during or before 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	***2012 Q1***	***2011 Q1***
0 - 90 days	9%	6%
90 - 180 days	4%	3%
180 days - 1 year	3%	3%
1 - 2 years	3%	2%
2 - 3 years	2%	6%
3 - 4 years	8%	**37%**
4 - 5 years	**28%**	**25%**
> 5 years	**44%**	**17%**

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 19 percent of 2012 Q1 MLF SARs, up from 15 percent in 2011 Q1; most reported amounts were under $500,000. Consistent with previous years, a relatively small number of MLF SARs (51 filings) included recovered amounts in 2012 Q1.[6]

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, 2010*.

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 2012 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.

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.

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**	2012 Q1	2,404 14%	6,377 36%	6,009 34%	2,006 11%	506 3%	347 2%	2 -%
	2011 Q1	2,898 11%	9,099 36%	9,258 36%	3,026 12%	705 3%	428 2%	71 -%
(2) SARs reporting **loss amounts**	2012 Q1	1,400 8%	1,180 7%	549 3%	122 1%	35 -%	12 -%	14,353 81%
	2011 Q1	1,280 5%	1,228 5%	909 4%	339 1%	74 -%	25 -%	21,630 85%

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 2012 Q1 MLF SARs with suspicious activity dates starting after January 1, 2010. 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 remained the top ranked state, as it was in Q4 and CY 2011. Nevada ranked 2nd, rising from its 5th place ranking in 2011 Q4. Florida's 3rd ranking was consistent with its showings between 2nd and 4th in the 2011 quarterly reports. Arizona and New York rounded out the top five per capita rankings. Arizona jumped into 4th from rankings in the 6th through 11th range during 2011, while New York jumped into 5th from rankings in the low to mid-teens during 2011.

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

State	2012 Q1 Rank by volume	2012 Q1 State Rank per capita		State	2012 Q1 Rank by volume	2012 Q1 State Rank per capita
CA	1	1		WA	12	11
NV	13	2		MD	18	12
FL	2	3		NH	34	13
AZ	8	4		MA	17	14
NY	3	5		MN	19	15
IL	4	6		VA	10	16
NJ	6	7		NM	29	17
CO	15	8		UT	26	18
HI	30	9		MI	9	19
GA	6	10		AK	42	20

By Metropolitan Statistical Area — MSA File

During 2012 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, Riverside, and Miami.

Per capita, California cities held the top three ranks for 2012 Q1 SARs. Los Angeles ranked 1st, Riverside 2nd, and San Jose 3rd this quarter. Compared to Q4 2011, this was a slight increase for Los Angeles (from 3rd), a bigger jump for Riverside (from 11th), and a slight decline for San Jose (from 2nd). Las Vegas and Miami rounded out the top five metro area hot spots this quarter.

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

MSA	2012 Q1 Rank by volume	2012 Q1 Rank per capita		MSA	2012 Q1 Rank by volume	2012 Q1 Rank per capita
Los Angeles-Long Beach-Santa Ana, CA	1	1		Phoenix-Mesa-Scottsdale, AZ	8	11
Riverside-San Bernardino-Ontario, CA	5	2		San Francisco-Oakland-Fremont, CA	7	12
San Jose-Sunnyvale-Santa Clara, CA	16	3		Atlanta-Sandy Springs-Marietta, GA	6	13
Las Vegas-Paradise, NV	15	4		Chicago-Naperville-Joliet, IL-IN-WI	3	14
Miami-Fort Lauderdale-Pompano Beach, FL	4	5		Jacksonville, FL	27	15
San Diego-Carlsbad-San Marcos, CA	9	6		Denver-Aurora-Broomfield, CO	21	16
Orlando-Kissimmee, FL	19	7		Seattle-Tacoma-Bellevue, WA	14	17
Sacramento--Arden-Arcade--Roseville, CA	20	8		Richmond, VA	31	18
Tampa-St. Petersburg-Clearwater, FL	11	9		Detroit-Warren-Livonia, MI	12	19
New York-Northern New Jersey-Long Island, NY-NJ-PA	2	10		Washington-Arlington-Alexandria, DC-VA-MD-WV	10	20

By County

County File

In terms of total mortgage loan fraud SAR subjects, Los Angeles remained the top ranked county in the nation, as it has been for years. However, Cook slipped to 3rd from 2nd this quarter, while Orange, CA rose to 2nd from 4th, reflecting California's dominance of mortgage fraud SARs at the county level.

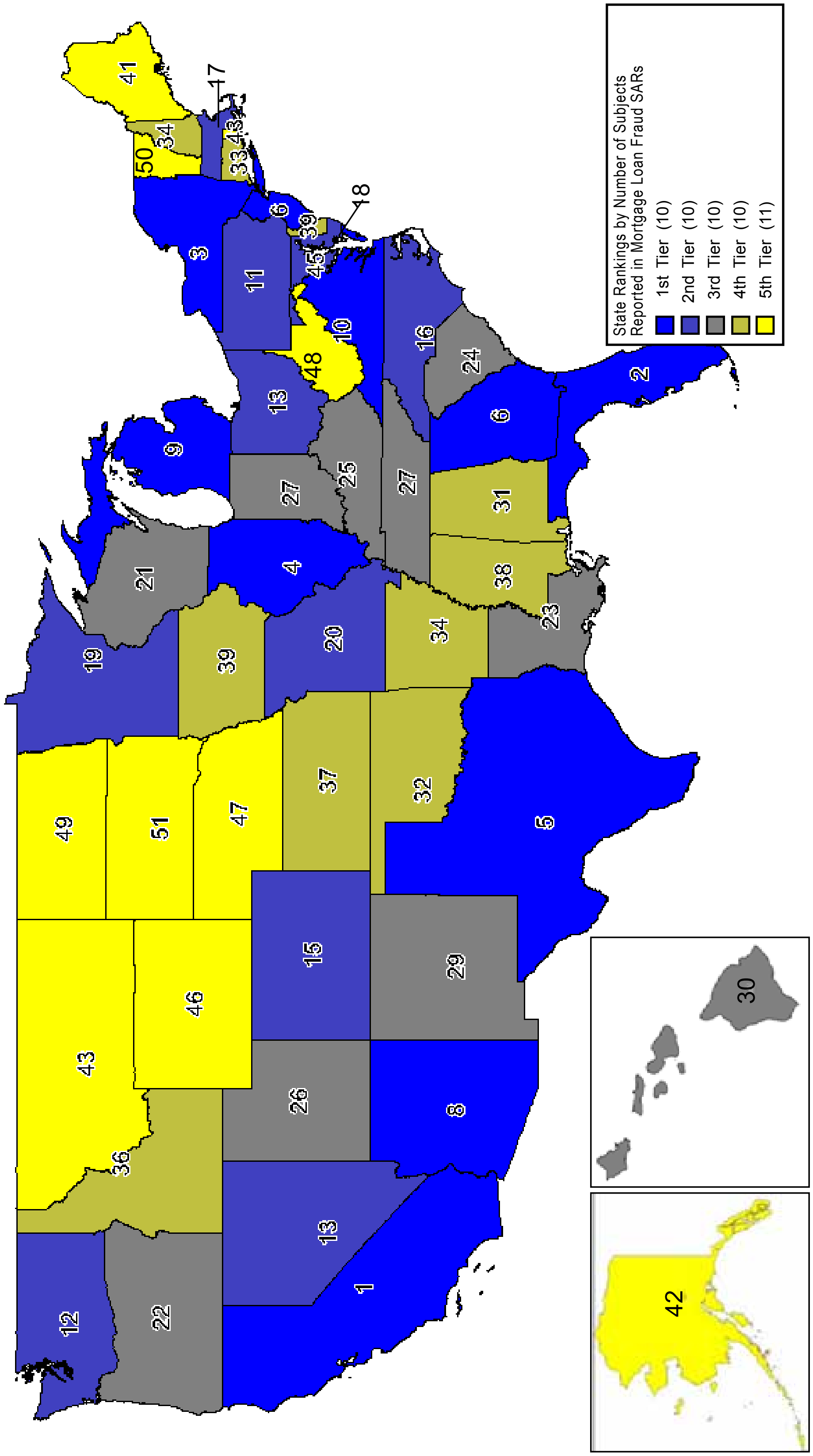
California counties also dominated the rankings in terms of SAR subjects per capita, which are calculated for the 100 most populous U.S. counties. Five California counties were in the top ten rankings; Orange 1st, Los Angeles 2nd, Riverside 5th, San Bernardino 6th, and Santa Clara 8th. Rounding out the top five rankings were Gwinnett at 3rd, up from 8th last quarter, and Nassau at 4th, up from 11th last quarter.

Table 6: Mortgage Loan Fraud SAR Subjects
Top 20 Counties

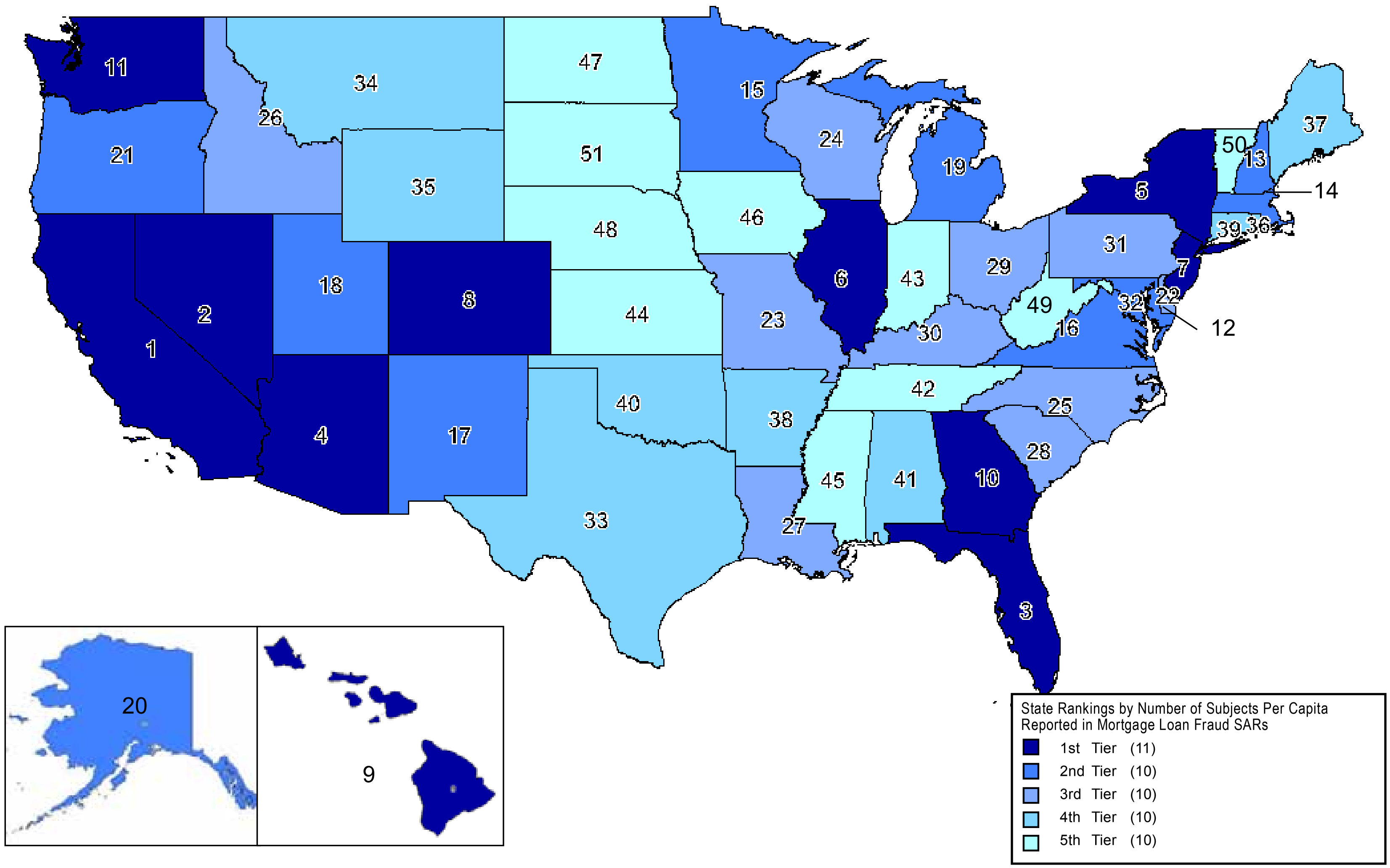
County	State	2012 Q1 Rank by volume	2012 Q1 Rank per capita		County	State	2012 Q1 Rank by volume	2012 Q1 Rankper capita
Orange	California	2	1		Hillsborough	Florida	18	11
Los Angeles	California	1	2		Duval	Florida	27	12
Gwinnett	Georgia	22	3		Kings	New York	8	13
Nassau	New York	16	4		Contra Costa	California	22	14
Riverside	California	6	5		Queens	New York	10	15
San Bernardino	California	9	6		San Diego	California	5	16
Suffolk	New York	16	7		Broward	Florida	14	17
Santa Clara	California	12	8		Bergen	New Jersey	27	18
Clark	Nevada	11	9		Fairfax	Virginia	24	19
Miami-Dade	Florida	7	10		Palm Beach	Florida	19	20

The following maps show mortgage fraud geographic concentrations reported in 2012 Q1 for activities occurring during the previous two calendar years (i.e. 2010 Q1 –2012 Q1). Maps show subjects by state and metropolitan area, with concentrations based on numeric and per capita subject totals.

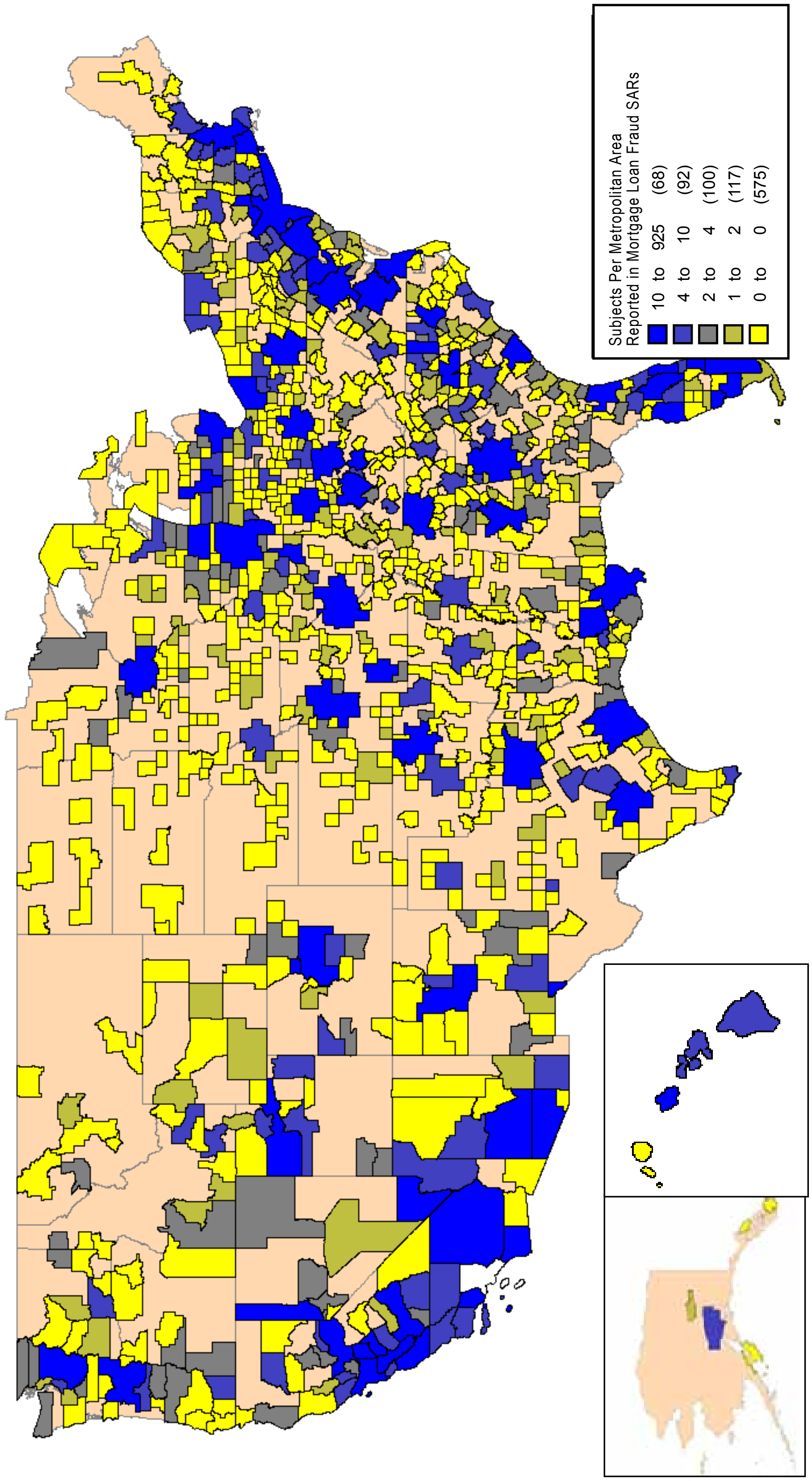
Mortgage Loan Fraud SAR Subjects
State Location Ranks, January – March, 2012



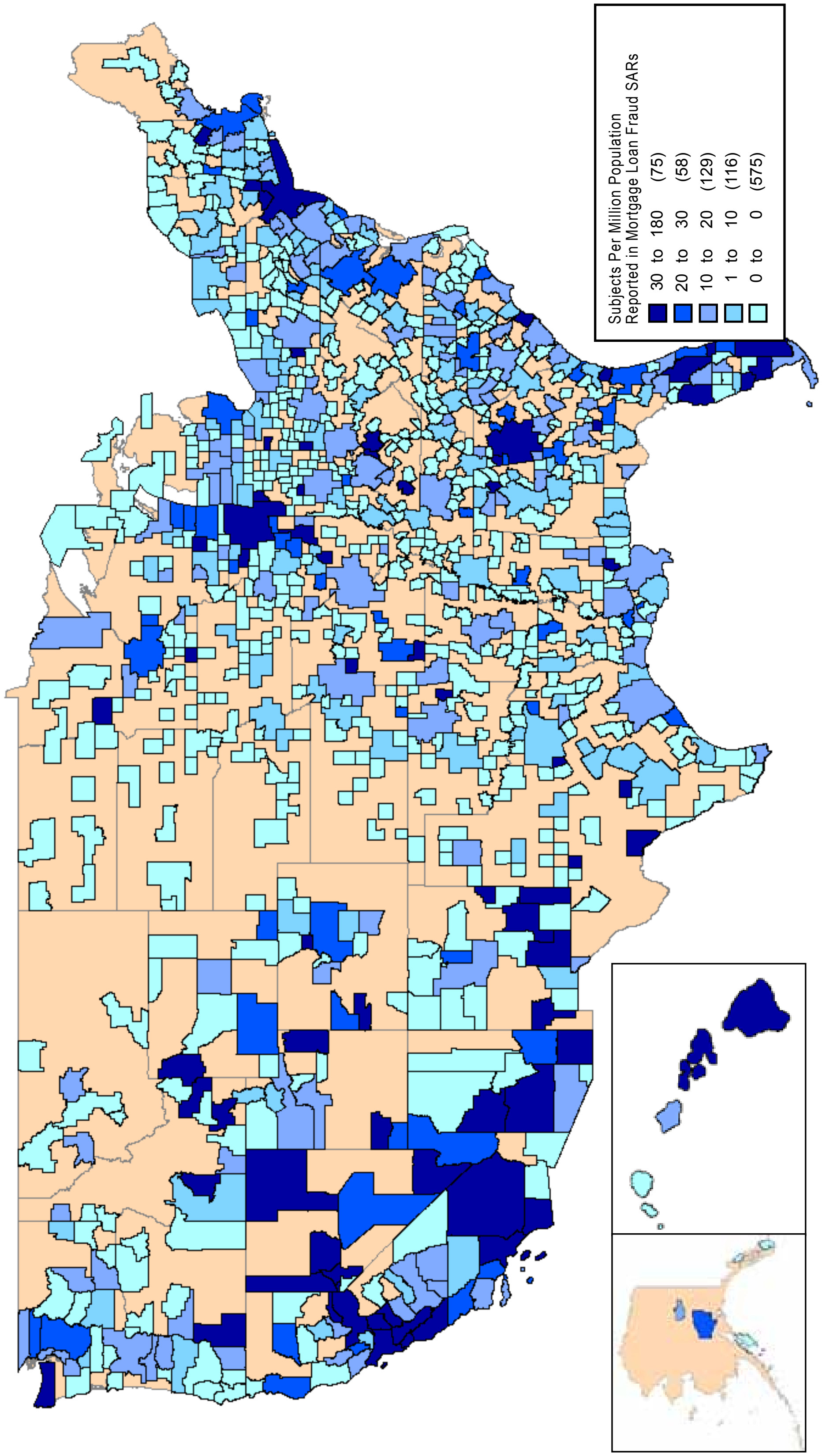
Mortgage Loan Fraud SAR Subjects Per Capita
State Location Ranks, January — March, 2012



Mortgage Loan Fraud SAR Subjects
Top Metropolitan Areas, January — March, 2012



Mortgage Loan Fraud SAR Subjects Per Capita
Top Metropolitan Areas, January — March, 2012



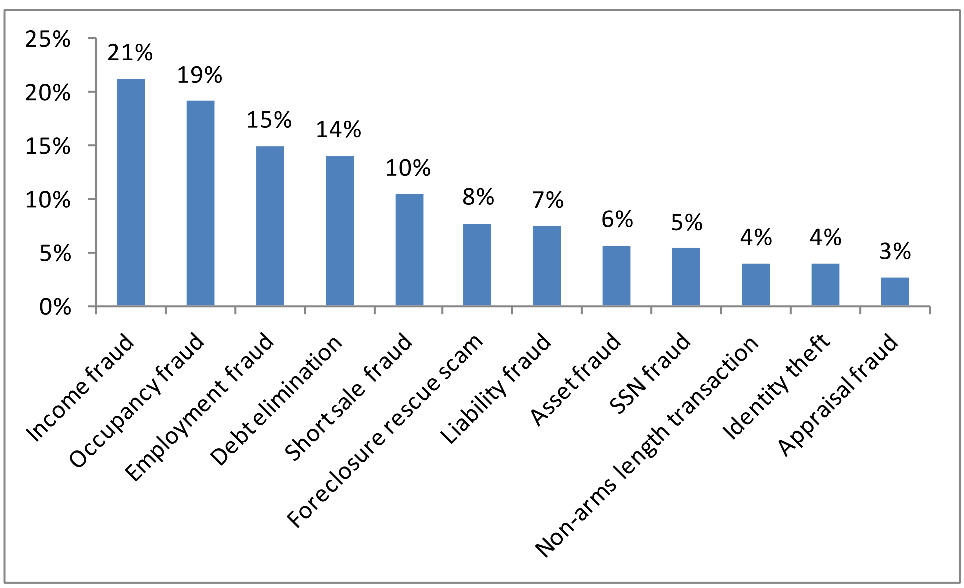
Current Issues

Fraud Detection

To better understand the latest trends in reporting of suspected mortgage fraud, FinCEN examined a subset of 2012 Q1 filings that reported suspicious activity beginning two years or less before the SAR was filed. Filers reported 3,354 MLF SARs during 2012 Q1 addressing such activities, or 19 percent of the 17,651 MLF SARs submitted to FinCEN during the quarter.

For this report, FinCEN analyzed the narratives of a statistically representative, randomly selected sample of 334 of the 3,354 SARs reporting suspicious activity less than two years old. As it did in the CY 2011 report, FinCEN wished to determine the percentage of mortgage fraud SARs from the sample where the filing institution refused to complete or otherwise facilitate the transaction or service requested by the subject. This quarter, FinCEN found that 41 percent of the narratives in the sample clearly indicated that the filing institution rejected the subject's request due to fraud, up slightly from 40 percent in the CY 2011 sample.

Figure 2 – Categories of Fraud Addressed in MLF SAR Narratives



In addition, FinCEN wanted to quantify the frequency with which filers discovered common types of mortgage fraud, as depicted in Figure 2 above. FinCEN published a comparable analysis in its CY 2011 mortgage fraud report, and most figures were within a few points of these 2012 Q1 statistics. Some noteworthy changes included an increase in debt elimination schemes, which were addressed in 14 percent of 2012 Q1 sample SARs, up from 9 percent in CY 2011. In addition, foreclosure rescue scams (other than debt elimination) were noted in eight percent of 2012 Q1 sample SARs, but had been described in less than two percent of CY 2011 reports. Finally, appraisal fraud was described in three percent of 2011 Q1 reports, down from 12 percent of CY 2011 reports.

Filers Identifying "Repeat" Perpetrators

FinCEN also noted an increasing number of mortgage fraud related SARs that could provide useful information for law enforcement about "repeat subjects"; that is, the same subjects identified in multiple SARs, or identification of the same subject in multiple transactions attempted or conducted at the filing institution. For example, several foreclosure rescue scam SARs described filer research on foreclosure rescue subject organizations, and noted that numerous borrowers have complained about those subject organizations. Filers also noted that many foreclosure rescue scams continued to claim affiliation with the major banks servicing homeowners' mortgages. One SAR appeared to note that the foreclosure rescue scammer had somehow legitimately obtained confidential borrower information from a bank.

In several debt elimination SARs, filers noted multiple borrowers using the same subjects for purported debt relief service. These subjects included notaries whose names appeared on bogus legal documents declaring the borrowers' loans invalid. Subjects also included bank account holders from whom bogus payment methods were drawn to "pay" mortgage balances for multiple borrowers. In one such SAR, the filer also noted that the same subject made follow up calls regarding the "payment" of loan balances for several unrelated borrowers.

Finally, filers noted in several short sale SARs subjects who had been involved in numerous suspected fraudulent transactions. One filer reported over a dozen active short sale requests by one real estate professional, using identical proof of funds letters and purchase agreements. The filer recommended its underwriters deny all future short sale requests by this real estate professional. Another filer identified a subject involved in possible illegal short sale flipping of properties, noting that the same subject had already purchased three short sales and resold each property within fifteen days of purchase. Filers also identified a licensed realtor operating various internet businesses that matched short sale buyers and sellers. The filer noted that this realtor's short sale listings received inadequate marketing support and sold at inferior prices in transactions between related parties.

Noteworthy New Fraud Patterns

In the 2012 Q1 SARs sample, FinCEN also noted several fraud patterns not described in recent mortgage loan fraud quarterly reports.

Homeowners' Insurance Fraud - FinCEN noted two SARs describing homeowners' insurance fraud related to mortgage fraud in the aftermath of home fires. In one instance, a home with two mortgages burned down. The borrower asked that the insurance check be payable to him instead of the mortgage lender, and did repay the first mortgage. But the subject ignored payment requests and subsequent demand letters from the filer on the second mortgage. In the other case, the filer suspected arson on a rental property insured for several times the mortgaged value. This subject repaid his mortgage loan with insurance proceeds and pocketed the additional insurance money.

"Keys for Cash" – One filer was notified by local law enforcement, based on a confirmed lead from a local realtor, about persons illegally occupying bank owned, or "REO", properties. The subjects moved into various bank owned properties claiming to have long term leases. However, the subjects' true objective appeared to be inducing lenders into paying them to vacate the premises.

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

FinCEN encourages readers to respond with reactions and comments to this report. Please provide FinCEN with any feedback regarding the contents of this report by contacting Webmaster@fincen.gov. Please mention "MLF 2012 Q1 report" in your email.

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