Mortgage Loan Fraud
Update

Suspicious Activity Report Filings
In 2nd Quarter 2011

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Table of Contents

Introduction

This update to FinCEN's prior Mortgage Loan Fraud (MLF) studies looks at Suspicious Activity Report (SAR) filings from April through June 2011 (2011 Q2). It provides new information on reporting activities, geographic locations, and other filing trends in 2011 Q2. The update includes tables and illustrations of various geographies reported in 2011 Q2 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 research on reported mortgage fraud activities 90 or fewer days old, with emphasis on so-called "debt elimination" scams, identity theft, Social Security Number (SSN) fraud, and false statements.

Overall Filings

In 2011 Q2, filers submitted 29,558 Mortgage Loan Fraud SARs (MLF SARs),[1] an 88 percent[2] increase over the previous year.[3] The total number of all SARs filed in 2011 Q2 increased by 16 percent. Fifteen percent of all SARs filed in 2011 Q2 indicated MLF as an activity characterization, up from 9 percent in 2010 Q2.[4]

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

	2011 Q2	2010 Q2	% Change
MLF SARs	29,558	15,727	88%
All SARs	203,468	175,091	16%
MLF SARs as a proportion of all SARs	15%	9%	62%

Time lapses between filing and activity dates in 2011 Q2 MLF SAR filings showed focus on increasingly dated activities. In 2011 Q2, 87 percent of reported activities occurred more than 2 years prior to filing, compared to 73 percent in 2010 Q2 (Table 2). Moreover, the largest change came in activities that occurred 4 or more years prior to SAR filing, which were 63 percent of reporting in 2011 Q2 and only 18 percent the year before.

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. This upward spike in 2011 Q2 MLF SAR counts is directly attributable to mortgage repurchase demands and special filings generated by several institutions. Omitting these particular submissions, 2011 Q2 MLF SAR numbers would be down 3% from the prior year.
3. 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.
4. MLF SARs have constituted 10 percent of all SARs filed since 2007 Q4.

For both 2011 Q2 and 2010 Q2 filings, a majority of reported activities took place between 2006 and 2008.[5] 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[6]

Time Lapsed	*2011 Q2*	*2010 Q2*
0 - 90 days	6%	14%
90 - 180 days	3%	4%
180 days - 1 year	2%	4%
1 - 2 years	2%	5%
2 - 3 years	3%	26%
3 - 4 years	21%	30%
4 - 5 years	38%	12%
> 5 years	25%	6%

5. 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*.

6. 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 Q2 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 12 percent of 2011 Q2 MLF SARs, down from 23 percent in 2010 Q2; most reported amounts were under $500,000. Consistent with previous years, a relatively small number of MLF SARs (30 filings) included recovered amounts in 2011 Q2.[7]

Table 3: Mortgage Loan Fraud (MLF) SARs
Reported Amounts[8] 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 Q2	3,932	10,144	10,469	3,671	738	498	106
		13%	34%	35%	12%	2%	2%	-
	2010 Q2	2,822	5,504	4,832	1,561	493	395	120
		18%	35%	31%	10%	3%	3%	1%
(2) SARs reporting **loss amounts**	2011 Q2	1,460	1,128	607	127	51	28	26,157
		5%	4%	2%	-	-	-	88%
	2010 Q2	2,003	914	474	102	40	24	12,170
		13%	6%	3%	1%	-	-	77%

7. 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.
8. 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 Q2 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 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.

After some atypical shifts during 2011 Q1, per capita state rankings reverted to historical norms during Q2. California remained the highest ranked state. Florida rebounded from its 5th ranking in the previous quarter to 2nd (excluding 2011 Q1, Florida has ranked at least 3rd in mortgage fraud per capita every quarter since 2007). Nevada returned to 3rd rank this quarter, bumping North Carolina from its highest ever ranking last quarter to 10th this quarter. Another noteworthy move in the rankings was Hawaii, moving from 18th last quarter to 6th this quarter.

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

State	2011 Q2 Rank by volume	2011 Q2 State Rank per capita		State	2011 Q2 Rank by volume	2011 Q2 State Rank per capita
CA	1	1		DE	36	11
FL	2	2		GA	7	12
NV	19	3		WA	10	13
IL	4	4		MD	12	14
DC	41	5		NY	3	15
HI	30	6		VA	10	16
AZ	9	7		OR	22	17
UT	21	8		MI	8	18
NJ	6	9		MO	16	19
NC	13	10		MA	15	20

By Metropolitan Statistical Area

MSA File

During 2011 Q2, Los Angeles ranked highest among the 50 most populous metropolitan areas, based on volume of reported mortgage fraud subjects, followed by New York, Chicago, Miami, and Riverside.

Per capita, California cities dominated the list of metro areas for reported mortgage fraud subjects, with California MSAs holding four of the top five ranks. San Jose remained the top ranked MSA per capita, with Los Angeles 2nd, Riverside 3rd, and San Diego 5th. Miami rebounded slightly, to 4th in 2011 Q2, from 6th in Q1 (this was only the 2nd time since 2006 Q2 that Miami ranked below 2nd).

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

MSA	2011 Q2 Rank by volume	2011 Q2 Rank per capita		MSA	2011 Q2 Rank by volume	2011 Q2 Rank per capita
San Jose-Sunnyvale-Santa Clara, CA	10	1		Las Vegas-Paradise, NV	20	11
Los Angeles-Long Beach-Santa Ana, CA	1	2		Atlanta-Sandy Springs-Marietta, GA	7	12
Riverside-San Bernardino-Ontario, CA	5	3		Phoenix-Mesa-Scottsdale, AZ	10	13
Miami-Fort Lauderdale-Pompano Beach, FL	4	4		Washington-Arlington-Alexandria, DC-VA-MD-WV	8	14
San Diego-Carlsbad-San Marcos, CA	9	5		New York-Northern New Jersey-Long Island, NY-NJ-PA	2	15
Tampa-St. Petersburg-Clearwater, FL	12	6		Seattle-Tacoma-Bellevue, WA	15	16
San Francisco-Oakland-Fremont, CA	6	7		Detroit-Warren-Livonia, MI	13	17
Orlando-Kissimmee, FL	18	8		Salt Lake City, UT	33	18

MSA	2011 Q2 Rank by volume	2011 Q2 Rank per capita		MSA	2011 Q2 Rank by volume	2011 Q2 Rank per capita
Chicago-Naperville-Joliet, IL-IN-WI	3	9		Milwaukee-Waukesha-West Allis, WI	29	19
Sacramento--Arden-Arcade--Roseville, CA	19	10		St. Louis, MO-IL	22	20

By County

County File

Los Angeles and Cook counties remained the top two reported counties in volume for reported mortgage fraud subjects, as in the last several quarters.

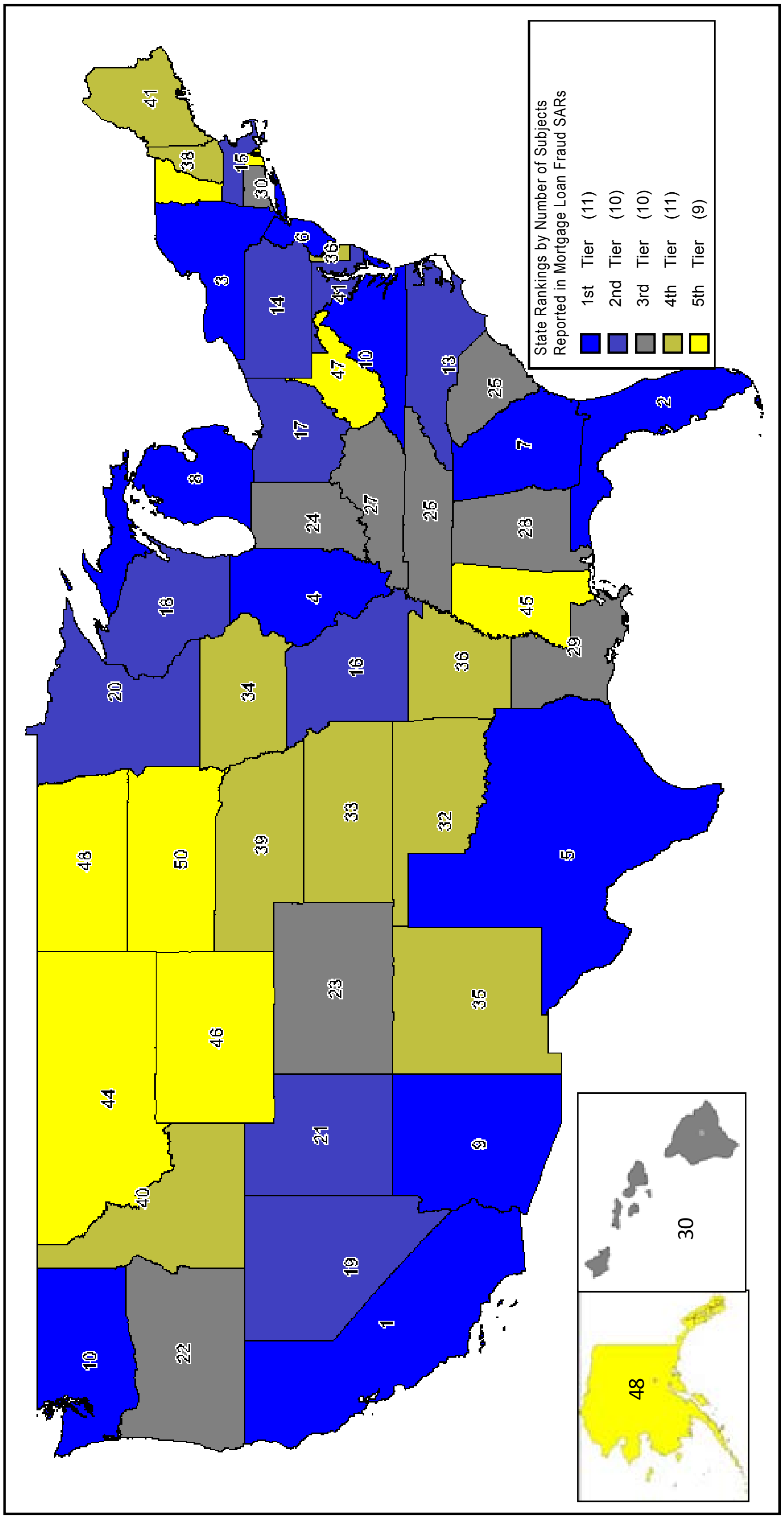
Per capita, California counties dominated the list of mortgage fraud subjects again this quarter, although specific counties shifted significantly in the rankings. Santa Clara remained 1st, as it was last quarter. Los Angeles, Orange, and Riverside all raised several rankings from last quarter, while San Mateo, Alameda and Sacramento fell out of the top ten. Palm Beach, Florida rose significantly in the rankings, from 36th last quarter to 6th this quarter. Miami-Dade and Broward also went up several points each in the rankings, to fall within the top ten again, as they have been for most quarters since 2006.

Table 6: Mortgage Loan Fraud SAR Subjects
Top 20 Counties

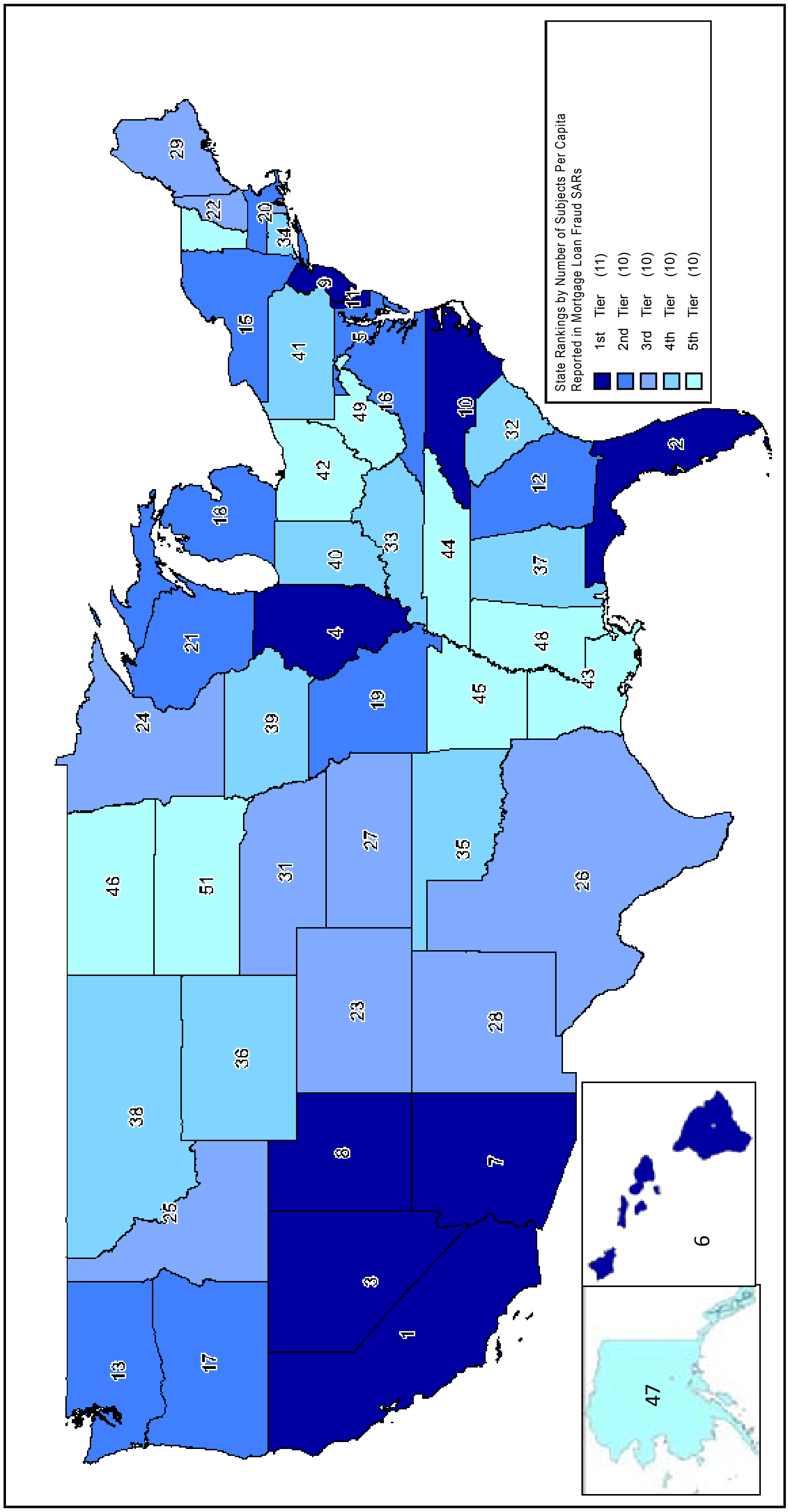
County	State	2011 Q2 Rank by volume	2011 Q2 Rank per capita		County	State	2011 Q2 Rank by volume	2011 Q2 Rank per capita
Santa Clara	California	7	1		San Mateo	California	34	11
Orange	California	3	2		Pinellas	Florida	25	12
Riverside	California	5	3		DeKalb	Georgia	32	13
Los Angeles	California	1	4		San Diego	California	4	14
Ventura	California	23	5		Contra Costa	California	22	15
Palm Beach	Florida	14	6		San Joaquin	California	39	16
Oakland	Michigan	15	7		Cook	Illinois	2	17
Broward	Florida	9	8		Middlesex	New Jersey	32	18
Miami-Dade	Florida	8	9		San Bernardino	California	10	19
Hillsborough	Florida	18	10		Alameda	California	15	20

The following maps show mortgage fraud geographic concentrations reported in 2011 Q2 for activities occurring during the previous two calendar years (i.e. 2009 Q2 –2011 Q2). Maps show subjects by state and metropolitan area, with concentrations based on numeric and per capita subject totals.

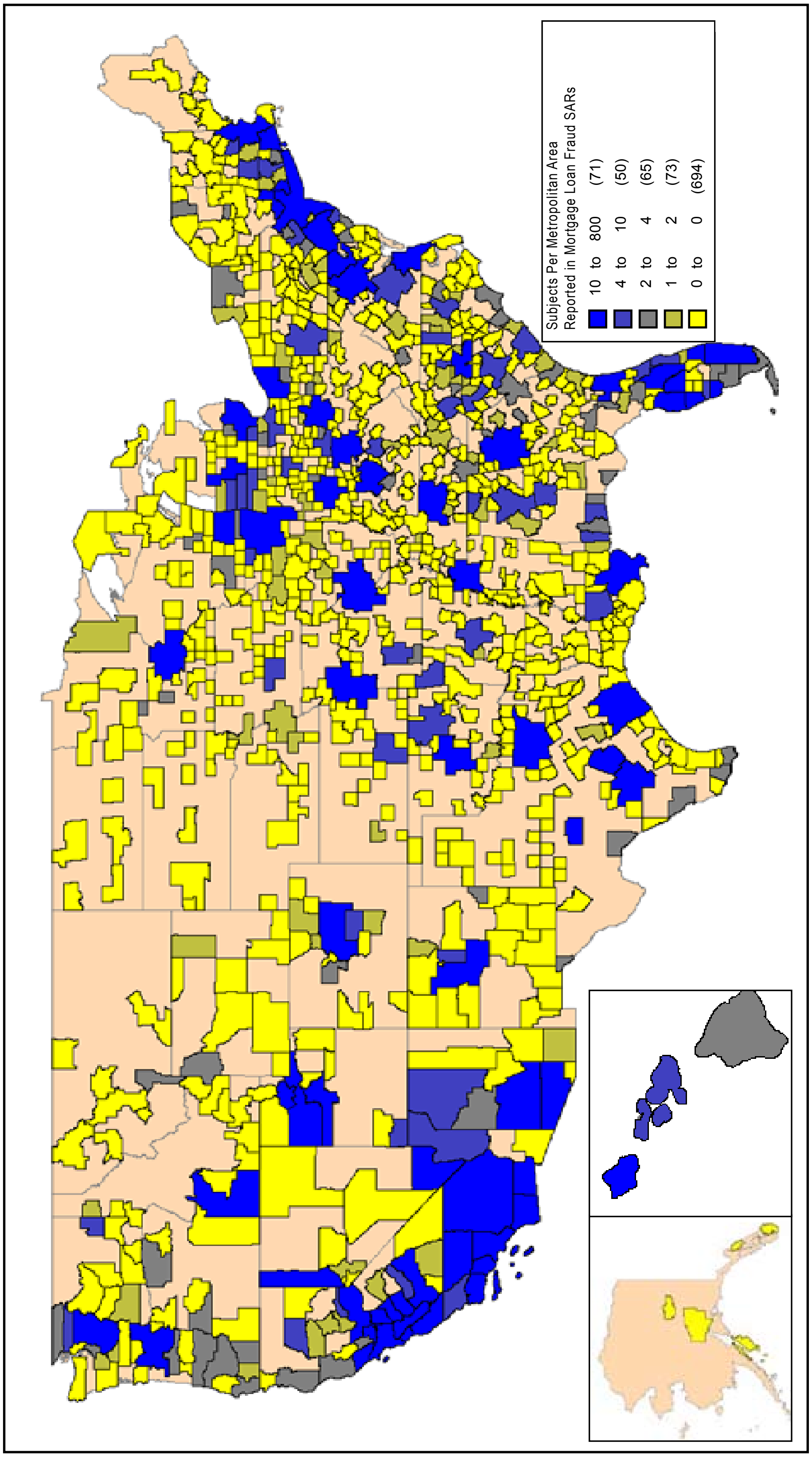
Mortgage Loan Fraud SAR Subjects
State Location Ranks, April – June, 2011



Mortgage Loan Fraud SAR Subjects Per Capita
State Location Ranks, April — June, 2011

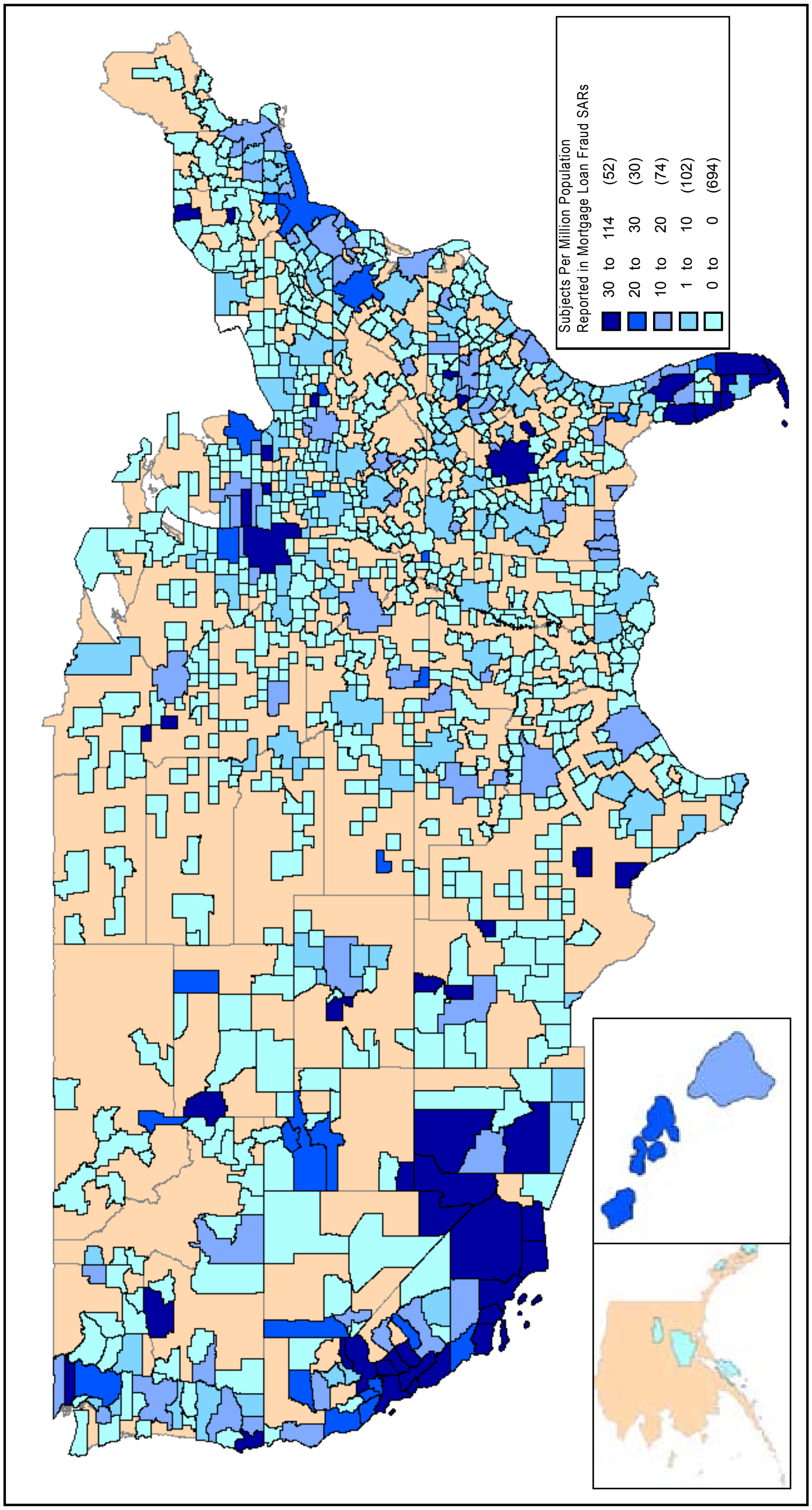


Mortgage Loan Fraud SAR Subjects
Top Metropolitan Areas, April — June, 2011



Mortgage Loan Fraud SAR Subjects Per Capita

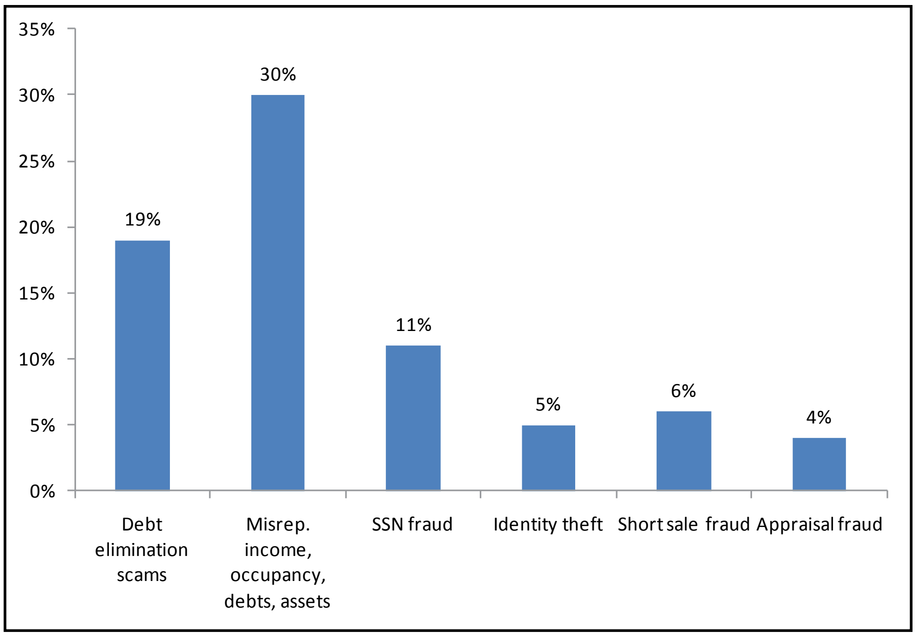
Top Metropolitan Areas, April — June, 2011



Current Issues / 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 Q2, there were 1,825 MLF SARs meeting these criteria. The following information derives from a random sample of 320 of these SARs. Figure 1 details the suspicious activities described by filers in the sample SAR narratives.

Figure 1 - 2011 Q2 Sample SAR Statistics – Suspicious Activities Described by Filers



Debt Elimination Scams

Debt elimination scams continued to be common, appearing in 19 percent of the sampled reports. Activities involved numerous bogus documents and payment methods that customers and third parties submitted to financial institutions in attempts to have their mortgage obligations eliminated. Filers described several "payment methods" for mortgage debt elimination not addressed in previous FinCEN reports, including fraudulent bank checks, falsely purported deposits from a Federal Reserve Bank, and "International Bills of Exchange."

9. Relevant SARs were extracted by subtracting the suspicious activity "from" date in SAR Field 33 from the date when the SAR entered the BSA database.

FinCEN is an active member of many law enforcement and regulatory collaborative efforts to address debt elimination schemes and other aspects of combating mortgage fraud, including through the Administration's Financial Fraud Enforcement Task Force Mortgage Fraud Working Group, the Department of Justice Payments Fraud Working Group, and direct support to criminal investigators and prosecutors across the country.[10]

False Statements and Documents

Thirty percent of the sample SAR narratives focused specifically on misrepresentations of income, employment, occupancy, assets and/or liabilities. Some SARs described scams in which the subjects made multiple loan applications for the same property, despite previous denials due to misrepresentations.

One filer noted multiple fraudulent refinancing applications from a customer, each with material misrepresentations. The filer noted that having the conflicting documentation on file made it easier to identify false statements in the fourth application.

One filer received a fraudulent mortgage pre-approval letter prepared by a third party on authentic bank letterhead, but with a non-existent branch address and loan officer name. A seller's agent, who received the pre-approval letter from a buyer's agent with an offer, provided the letter to the filer.

Social Security Number Fraud and Identity Theft

Eleven percent of the sampled narratives described Social Security Number (SSN) fraud, which filers sometimes labeled as "Identity Theft" in Field 35u of the SAR form. Most identity theft SARs described applicants who used invalid Individual Taxpayer Identification Numbers (ITINs) or SSNs on origination or modification loan documents. Some SARs described subjects who submitted documents with currently valid ITINs or SSNs, but had previous loan applications on file that used invalid numbers.

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10. FinCEN analyzed debt elimination scams in three previous reports covering 2011 Q1, 2010 CY, and 2010 Q3 mortgage loan fraud SARs. For more details, please see http://www.fincen.gov/news_room/rp/files/MLF_Update_1st_Qtly_11_FINAL_508.pdf, http://www.fincen.gov/news_room/rp/files/MLF_Update_3rd_Qtly_10_FINAL.pdf, http://www.fincen.gov/news_room/rp/files/MLF_Update_4th_Qtly_10_FINAL_508.pdf.

Short Sale Fraud

Six percent of the sampled SARs involved short sale fraud. Filers often described attempts to complete short sale transactions between related parties, including family members. In all cases, filers terminated the short sale process upon discovering these undisclosed relationships.

Filers also addressed occasional reported short sale "flips" or "flops"[11] for quick gains. For example, one subject attempted to short sell a property for less than half its appraised value.

In one SAR, the filer stated that during a short sale process, a third party purportedly "working with" the bank contacted the borrower to say that the sale was being pulled. The third party then charged the borrower more than $50,000 to continue the short sale process. After the borrower paid the fee, the bank discovered the scam and stopped the short sale.

One filer described possible manipulation of pending short sales by an attorney on behalf of multiple customers with previously rejected short sale offers. The bank had declined the previous requests due to non-arms length relationships, conflicts of interest, suspicious broker price opinions (BPOs), a fraudulent short sale approval letter prepared by a former bank employee, and several short sale flops. The filer did not know whether the new attorney was linked to the past loan requests, but noted several limited liability corporations (LLCs) involved in each new transaction.

Another filer noted a short sale scheme between related LLCs sharing the same registered agent. These LLCs also used fraudulent letters of credit. The filer suspected that the LLCs were trying to prevent the foreclosure or keep other realtors from marketing the properties.

Appraisal Fraud

Four percent of sampled narratives addressed appraisal fraud for new mortgages, refinancing, and short sales. In most of these SARs, filers questioned the choice of comparable properties selected by appraisers. For example, a filer noted that the "appraiser utilized inferior comps with inconsistent adjustments in order to deflate the value" of a short sale property. Another filer noted an appraiser using a short sale property as a comparable to a normal sale.

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11. Flopping occurs when a foreclosed 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.

Additional Items of Interest in SARs 90 or Fewer Days Old

Funds Disbursement Fraud - Filers noted problems with funds disbursement through several settlement companies and title agencies. In one SAR, the filer stated that, two months after closing, lenders had not received proceeds from the settlement agency. In another SAR, the filer noted that four different banks were still showing mortgages it had refinanced as being unpaid. The title company should have disbursed the funds, and the bank filed claims against the title company to cover the loss.

Forged Rescission of Notice of Default – Filers described members of a known mortgage fraud ring executing a document purporting to rescind a Notice of Default) on a foreclosed property. The fraudsters then filed a false deed of trust claiming a related party as the substitute trustee for the property.

Loan Modification Scams – A bank customer received a letter, purportedly from the bank, with accurate account information and offering loan modification services. The customer contacted the bank which subsequently traced the letter's origins to a law firm. The bank advised the law firm to stop representing association with the bank on loan modification matters.

419 Advance Fee Scams – One filer's customer received an email from a self-purported home buyer in China, requesting assistance in purchasing his neighbor's home. The man received and deposited a counterfeit check for the home from the "buyer," drawn from a business account at a Canadian bank. The bank reversed the deposit, closed the account and advised their customer to ignore future emails from the sender.

"Buy and Bail"[12] – Several filers noted "buy and bail" attempts by current homeowners. In about half the cases, subjects were forthright about their desire to obtain mortgages for larger homes before letting their current homes fall into foreclosure, because "everyone else was doing it."

Money Laundering – One filer described possible money laundering through real estate after a customer purchased a condo with cash, then completed a cash-out refinancing at a significantly lower appraisal value less than six months later.

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

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12. "Buy and Bail" is the practice by existing homeowners with "underwater" mortgages of purchasing new residences with the intent of allowing the old residences to fall into foreclosure. *See, e.g.* "'Buy and bail' homeowners get past Fannie, Freddie loan hurdles", Howley, Kathleen, Bloomberg News, http://www.bloomberg.com/news/2010-08-10/-buy-and-bail-homeowners-get-past-mortgage-hurdles-from-fannie-freddie.html, August 10, 2010.

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