Share Next Blog» Create Blog Sign In

Twitter - LinkedIn - Facebook

Thursday, May 10, 2012

The SAR catches a RAT

Can a SAR catch a RAT?

In its just released review of Suspicious Activity Report (SAR) trends, tips, and issues, FinCEN included a brief, but illustrative statement about how a SAR filing eventually led to an indictment obtained in a "Cash Back" Mortgage Fraud Scheme.

It is interesting to take note of this example of how proper application of FinCEN's Anti-Money Laundering requirements for residential mortgage lenders and originators may lead to reducing mortgage fraud.

Let's look at some good compliance and investigative work and find out how the SAR caught a RAT.*

IN THIS ARTICLE

Smelling a RAT

The case had its origins in a review of SARs conducted by a specialized mortgage fraud task force. The task force then launched an investigation that led to charges against two individuals.

The defendants were charged with engaging in a scheme to defraud mortgage lenders in connection with residential real property purchases.

Not only was the SAR a critical component of uncovering the perpetrators, but also a would-be filed Currency Transaction Report (CTR) on one of the individuals further caused concern, triggering yet another SAR filing, because in addition to the SAR that initiated the case, the second SAR reported how the defendant became "very upset" when he learned that a CTR would be filed because of a series of transactions.

The Scheme

Here's how the scheme worked:

(1) One of the defendants acted as the recruiter, finding various individuals, including straw and nominal purchasers, to purchase more than 15 residential real estate properties.

(2) The recruiter orchestrated the purchase transactions while the second defendant, a mortgage broker, brokered the mortgage loans through his mortgage company.

(3) Although the buyers provided the mortgage broker with legitimate personal information, this defendant made false representations on the loan applications in regard to income, employment, and intent to occupy the residences

The Mark

But there's more.

The criminal complaint described in detail the defendants' efforts to defraud lenders through the straw buyers, including controlling all aspects of the purchases and the accounts.

The indictment in the case charged that fraudulent or false representations were made in obtaining 100% mortgage financing, including misstatements about the purchasers' monthly income, intent to occupy the property, and existing liabilities.

In each transaction, the purchase price was above (!) the true market price of the property.

An amount approximately equal to the difference between the purchase price and the true market price was then diverted as "cash back" at the close of each escrow to a bank account for a corporation.

Member Mortgage Bankers Association of America MBA

SUITE OF SERVICES

CONTACT US

RECENT ARTICLES

LENDERS COMPLIANCE GROUP
The SAR catches a RAT

View my JDSUPRA profile

OUR OTHER WEBSITES

BROKERS COMPLIANCE GROUP
Anti-Money Laundering Debuts for Mortgage Brokers

MORTGAGE COMPLIANCE FORUM
Action Plans to Correct Deficiencies

CFPB FORUM
CFPB Offers A View Of Profit Sharing

OCC NEWS FORUM
OCC - Correcting Foreclosure Practices

BSA NEWS FORUM
Anti-Money Laundering Program for

DODD-FRANK FORUM
The Regulatory Burdens of the Dodd-Frank Act

NMLS USERS FORUM
NMLS: 2011 Licensing Report

SARs to the Rescue

As part of the scheme, these credits, which ranged from almost $42,000 to more than $137,000, were concealed from the mortgage lenders by the mortgage broker.

The mortgage broker, through his control over the corporation's bank account, used the fraudulently obtained funds for various purposes, including extensive cash withdrawals.

The SARs uncovered the perpetrators, as follows:

(1) A SAR review team identified a SAR filed on an associate of one of the defendants.

(2) Because the SAR listed mortgage loan fraud as the suspected violation type, the team referred the SAR to a mortgage fraud task force. The filer noted that the associate apparently misrepresented information on loan applications that were not performing. Also noted was the fact that the second defendant had acted as the loan agent and broker of record on the loans.

(3) Through research, the institution found that the associate had purchased several additional properties, with mortgage loans that totaled at least $450,000 for each purchase. The same title company closed all sales involved in the fraud.

(4) Eventually investigators found several additional SARs, including one with a nine page narrative describing activity on more than 17 individuals and businesses associated with the scheme.

(5) Investigators included many of the details described in the SARs in a criminal complaint and in the indictment charging both defendants with fraud.

Bilking a Bank

The losses caused by the defendants' conduct exceeded $2,500,000.

The defendants pleaded guilty to mail fraud and structuring currency transactions with a financial institution to evade the filing of CTRs.

---

* Jonathan Foxx is the President & Managing Director of Lenders Compliance Group

Labels: Financial Crimes Enforcement Network, FinCEN, Mortgage Fraud Trends, Mortgage Loan Fraud, SAR, SAR Activity Review, Suspicious Activity Reports

Home Older Post

Subscribe to: Post Comments (Atom)

FHA FORUM
FHA: Avoiding the Mortgagee Review Board

VETERANS MORTGAGE FORUM
CFPB: Establishes the ROAM Database

ARCHIVE

NEWSLETTER

MORTGAGE BANKING WEBSITES

ARCHIVE OF POSTS

▼ 2012 (17)
▼ May (1)
The SAR catches a RAT
► April (3)
► March (5)
► February (2)
► January (6)
► 2011 (106)
► 2010 (86)
► 2009 (8)

Web Toolbar by Wibiya

LENDERS COMPLIANCE GROUP is the first full-service, mortgage risk management firm in the country, specializing exclusively in residential mortgage compliance and offering a full suite of services in mortgage banking. We are pioneers in outsourcing solutions for residential mortgage compliance. We offer our clients real-world, practical solutions to mortgage compliance issues, with an emphasis focused on operational assessment and improvement, benchmarking methodologies, Best Practices, regulatory compliance, and mortgage risk management.

Information contained in this website is not intended to be and is not a source of legal advice. The views expressed are those of the contributing authors, as well as news services and websites linked hereto, and do not necessarily reflect the views or policies of Lenders Compliance Group (LCG), any governmental agency, business entity, organization, or institution. LCG makes no representation concerning and does not guarantee the source, originality, accuracy, completeness, or reliability of any statement, information, data, finding, interpretation, advice, opinion, or view presented herein.

© 2007-2012 Lenders Compliance Group, Inc. All Rights Reserved.

Tags | Labels | Keywords | Categories

Affiliated Business Arrangements Affiliated Service Providers Alternative Modification Borrower Eligibility CFPA compare ratio task force compare ratios Consumer Financial Protection Agency Core Compliance Credit Reports Department of Housing and Urban Development Department of Labor Employment Law Escrows Fair Labor Standards Act Fannie Mae Fannie Mae Loan Quality Initiative fha defaults Good Faith Estimate HAMP Home Affordable Modifcation Program HUD HUD-1 Settlement Statement Lending Compliance Loan Modifications Loan Officer Compensation loss mitigation Loss Mitigation Compliance Mortgage Compliance mortgage defaults Mortgage Disclosures mortgage fraud Mortgage News Mortgage Originator Compensation Permanent Modifications Prepayment Penalties real estate fraud Regulation X Regulation Z RESPA Risk Ratings Service Release Premiums Servicing Settlement Cost Booklet Settlement Service Providers Trial Modifications Truth in Lending Act Yield Spread Premiums