

Bank Secrecy Act Records Assist in Mortgage Fraud Investigation Resulting in Guilty Plea

In a case where investigators believe that as much as \$7 million in losses may be realized, Bank Secrecy Act (BSA) records helped identify co-conspirators, accounts, and elements of a mortgage fraud scheme. Specifically, Suspicious Activity Reports described transactions related to the fraud in both personal and business accounts belonging to the defendant. In addition, Currency Transaction Reports (CTRs) filed by a bank and a money services business (MSB), point to transactions enabling the defendant to obtain cash from the fraudulent activity.

The defendant pleaded guilty to conspiring to commit mail and wire fraud in connection with a mortgage fraud scheme. A judge sentenced the defendant to more than 5 years in prison and ordered restitution of \$3 million.

According to court documents, the defendant owned and operated a mortgage brokerage company. For approximately 3 years, the defendant and his co-conspirators profited by selling residential real estate to individuals referred to as “straw buyers.” The defendant and his co-conspirators helped the straw buyers obtain 100% mortgage financing to purchase the properties. To obtain the mortgage financing, the conspirators produced fraudulent loan applications that included materially false statements related to the buyers’ employment, income, immigration status, and intent to occupy the properties as primary residences. The straw buyers frequently defaulted on these mortgages, causing losses to banks and commercial lenders in excess of \$2,500,000.

In an affidavit filed with the court, a postal inspector details the fraud undertaking by the defendant and his co-conspirators on the part of the straw buyers. In addition to providing false information on loan documents, the defendant and others promised to provide renters for the properties. However, those renters never materialized. In addition, the straw buyer never received the keys to the property. Another straw buyer, with a purported income of \$13,200 per month, last had a full time job in 1993 at a 7-Eleven store, and her only current source of income was singing at birthday parties and weddings for approximately \$200 to \$500.

During the execution of a search warrant of a storage unit belonging to the defendant, Federal agents found paperwork listing the names, addresses, and phone numbers of the reported “employers” of the straw buyers. In addition, the agents found documentation that the defendant and others would return calls to lenders that were attempting to verify the employment of the straw buyers.

The case began with a tip from an informant. In support of the investigation, the case agents queried BSA records and found the results very useful. In particular, the BSA records helped identify bank accounts, schemes associated with the fraud, and additional co-conspirators.

Even before the period of criminal activity described occurred, a bank filed a SAR noting that the defendant's transactions appeared inconsistent and excessive for the type of business that he reported: rental income from properties. The bank also thought that the defendant was structuring cash withdrawals.

During the period of the fraud, several banks filed additional SARs noting unusual patterns. SARs filed on an associated entity note that the applicants for the loans may have overstated employment and inflated salaries, lied about the use of the home as a primary residence, or contained other discrepancies indicative of mortgage fraud. SARs filed on the defendant's personal accounts highlight patterns of structured withdrawals and official and cashier checks cashed in a manner consistent with fraud.

When the investigators reviewed the SARs, they reached out to the respective banks for more information on the defendant and his co-conspirators. At that point, the banks began to monitor the accounts closely, filed additional SARs, and simultaneously notified the lead investigator. A bank noted in one SAR that certain transactions involving official checks did not appear to serve any logical business or personal reason and were suspicious. The bank also noted that the receipt of wires and checks from title companies into a personal account by an individual who has a mortgage lending business is also unusual.

In addition to the SARs, the defendant is also the subject of more than a dozen CTRs. These reports, filed by both a bank and an MSB, identify checks cashed for amounts as much as \$44,000 during the course of the mortgage fraud. Incidentally, the owner of that MSB recently pleaded guilty in an unrelated terrorist financing case.

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