



Mortgage Loan Fraud Update

Suspicious Activity Report Filings
In Calendar Year 2012



August 2013



Mortgage Loan Fraud Update

**Suspicious Activity Report Filings
In Calendar Year 2012**

August 2013

Table of Contents

Introduction.....	1
Summary of Filings.....	2
Subject States.....	7
Current Issues.....	10

Introduction

This update to FinCEN's prior Mortgage Loan Fraud (MLF) assessments examines Suspicious Activity Report (SAR) filings from January through December 2012 (CY 2012). It provides new information on the volume of SAR filings, geographic locations of subjects, and other filing trends in CY 2012. Tables covering non-geographic aspects are compared with filings from corresponding periods in 2011.

A section on Current Issues provides updated statistics on foreclosure rescue-related SARs during 2012, and filers' voluntary use of the new FinCEN SAR e-filing report¹ for voluntary mortgage fraud reporting through March 31, 2013.

1. Use of FinCEN SAR became mandatory on April 1, 2013. For snapshot of new report format, please see <http://sdtnut.fincen.treas.gov/news/SuspiciousActivityReport.pdf>.

Summary of Filings

In CY 2012, FinCEN received 69,277 Mortgage Loan Fraud SARs (MLF SARs),² a 25 percent decrease over the previous year.³ This included 2,579 MLF SAR filings received on the FinCEN SAR. CY 2012 was the first year since FinCEN began reporting mortgage fraud SAR statistics that the number of MLF reports fell. In comparison, the total number of SAR-DIs filed in 2012 increased by 9 percent to 867,990, and FinCEN also received 102,913 reports on the FinCEN SAR.⁴ Seven percent of all SARs filed in 2012 indicated MLF as an activity characterization, down from 12 percent in the previous year.⁵

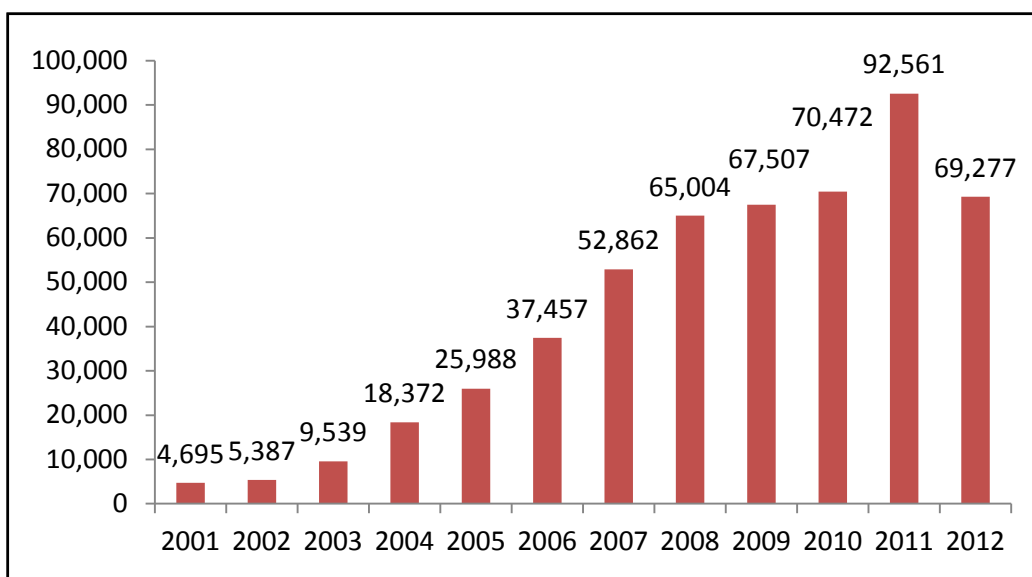
Table 1: Mortgage Loan Fraud SAR Filings Relative to All Legacy SAR-DI and FinCEN SAR Filings			
	CY 2012	CY 2011	% Change
MLF SARs (on SAR-DI and FinCEN SAR)	69,277	92,561	-25%
All SAR-DIs	867,990	798,588	9%
All FinCEN SARs	102,913	0	N.A.
MLF SARs as a proportion of all SAR-DIs and FinCEN SARs	7%	12%	-39%

While the number of MLF SARs received by FinCEN dropped in 2012, filings grew every year between 2001 and 2011, as indicated by Figure 1. FinCEN thinks the CY 2012 decline was the result of an unusual spike in MLF SAR filings during CY

- For purposes of this report, MLF SARs and totals thereof refer only to the Suspicious Activity Report filed by depository institutions on the legacy SAR-DI form (TD F 90-22.47), where filers selected mortgage fraud in field 35p or FinCEN SAR electronic filings where filers selected mortgage fraud in field 38. Related activities reported on the legacy Suspicious Activity Report by Money Services Business (FinCEN 109) and legacy 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.
- Filing increases or decreases are not necessarily indicative of overall increases or decreases in 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 2011 report, "Mortgage Loan Fraud Update: Suspicious Activity Report Filings from October 1 – December 31, 2010" at <http://www.fincen.gov/pdf/MLF%20Update.pdf>.
- For additional detail, please see FinCEN's CY 2012 SAR Activity Review – By the Numbers, page 5, at http://fincen.gov/news_room/rp/files/btn18/sar_by_numb_18.pdf. Figures in this MLF report may differ slightly from those in FinCEN's CY 2012 SAR Activity Review – By the Numbers because FinCEN's statistical data is continuously updated as additional reports are filed and processed.
- From CY 2008-2011, MLF SARs constituted approximately 10 percent of all SAR-DIs filed.

2011, primarily due to mortgage repurchase⁶ 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. FinCEN also noted that 46% of all the mortgage fraud reports it received in the last decade were filed during the last three years (2010, 2011, and 2012).

Figure 1: MLF SAR Filings by Year SAR Received, 2001-2012



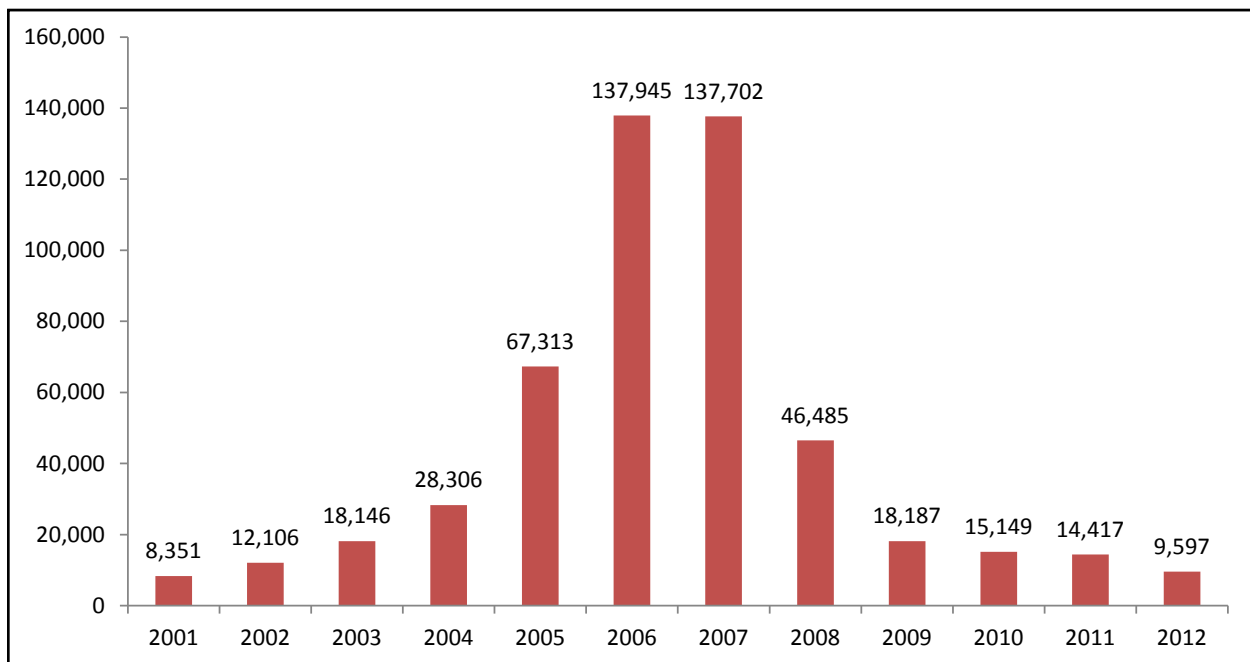
To drill down into repurchase SARs, FinCEN queried the number of MLF SARs by year since 2003 containing the term “repurchase” in the narrative. As Table 2 illustrates, the number of such SARs spiked to 40,861 last year, up from 8,625 SARs in 2010 and down to 13,132 SARs in 2012. Without the “repurchase” SARs, MLF reports could have peaked at 61,847 in 2010.

-
6. “Repurchase” SARs were filed by banks addressing fraud in individual mortgages that were originated during the housing bubble, and quickly bundled into mortgage pools or securities. When these mortgages later defaulted, the mortgage security holder could request “repurchase” of an individual loan by the originator when it could document fraud or other defects not detected at origination. After receiving a repurchase request, the bank would often file a “repurchase” SAR addressing fraud by individual borrowers that apparently existed, but was not caught, during the bank’s loan origination due diligence.

Table 2: Number of Mortgage Loan Fraud SAR Filings by Year with and without the Term “Repurchase” in Narrative

	<i>Repurchase SARs</i>	<i>Non-repurchase SARs</i>	<i>Total SARs</i>
2003	318	9,221	9,539
2004	832	17,540	18,372
2005	1,226	24,762	25,988
2006	2,342	35,115	37,457
2007	3,932	48,930	52,862
2008	5,449	59,555	65,004
2009	6,353	61,154	67,507
2010	8,625	61,847	70,472
2011	40,861	51,700	92,561
2012	13,132	56,145	69,277

Figure 2 depicts starting dates for suspicious activity reported in MLF SARs. It shows more clearly that the bulk of MLF SARs, regardless of filing date, reference suspicious activity that filers believe began in calendar years 2006 and 2007. This is because most mortgage fraud SARs address fraud that occurred during loan origination, and 2006 and 2007 were the final years of the U.S. housing bubble and related loan origination. FinCEN believes that much of this origination fraud was discovered and reported in subsequent years due to repurchase requests.

Figure 2: MLF SAR Filings by Year Suspicious Activity Started, 2001-2012

Time lapses between filing and activity dates in 2012 MLF SAR filings are another way of showing that filers continued to report suspicious activity that actually began in 2007 or earlier.⁷ In CY 2012, 57 percent of reported MLF activities commenced more than 5 years prior to filing (2007 or earlier), compared to 26 percent in CY 2011 (last row of Table 3).

During CY 2012, filers also reported more mortgage fraud activity that began 180 days or less before filing. Fifteen percent of all CY 2012 MLF SARs addressed activity that began within 180 days of filing, versus 11 percent in CY 2011.

Comparing Figure 2 and Table 3, the messages are consistent. Table 3 details that in both CY 2012 and CY 2011; a majority of reported activities actually began during or before 2007, and highlights those filing periods in bold type. Figure 2 also illustrates that the majority of MLF SARs in FinCEN's database reference suspicious activity beginning in 2006 or 2007.

Table 3: Mortgage Loan Fraud (MLF) SARs Time Elapsed from Activity Date to Reporting Date⁸		
Time Lapsed	CY 2012	CY 2011
0 - 90 days	10%	8%
90 - 180 days	5%	3%
180 days - 1 year	4%	3%
1 - 2 years	3%	2%
2 - 3 years	1%	4%
3 - 4 years	4%	23%
4 - 5 years	17%	32%
> 5 years	57%	26%

7. FinCEN has previously reported on contributing factors that triggered loan reviews and led to the discovery of more dated suspicious activities. For details, please see *Mortgage Loan Fraud Update: Suspicious Activity Report Filings from October 1 – December 31, 2009*, <http://fincen.gov/pdf/MLF%20Update.pdf>, page 4.
8. Calculations for Table 3 and data for Figure 2 derive from Part III, Field 33 and Part IV, Field 50 of the legacy depository institution SAR form. Table 3 and Figure 2 totals are based on suspicious activity starting dates. SARs with omitted or erroneous filing and starting dates are not represented. While Field 33 allows filers to specify both a start date and an end date of suspicious activities, filers did not report an end date in 9 percent of 2012 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.

In CY 2012, 84 percent of MLF SARs involved suspicious activity amounts under \$500,000. Only 21 percent of MLF SARs disclosed loss amounts; most of these amounts were also under \$500,000. Suspicious activity and loss amount reporting in CY 2011 was very similar. Consistent with previous years, a relatively small number of MLF SARs (121 filings) included recovered amounts in CY 2012.⁹

Table 4: Mortgage Loan Fraud (MLF) SARs								
Reported Amounts 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	CY 2012	10,131	24,459	23,364	7,990	2,091	1,226	17
		15%	35%	34%	12%	3%	2%	-
	CY 2011	12,926	33,107	32,279	10,123	2,384	1,710	32
		14%	36%	35%	11%	3%	2%	-
(2) SARs reporting loss amounts	CY 2012	5,741	5,422	2,668	499	154	63	54,689
		8%	8%	4%	1%	-	-	79%
	CY 2011	5,196	4,524	2,640	718	229	91	79,154
		6%	5%	3%	1%	-	-	86%

9. Due to the low number of MLF SARs citing recovered amounts, this data is not included in Table 4. Percentages under 1 percent are omitted or indicated with a hyphen in this report.

Subject States

The following table lists the top 20 states in rank order based on the number of subjects per capita in CY 2012 MLF SARs with relatively recent suspicious activity (dates starting after January 1, 2010). It also shows each state's rank based on the total number of SARs, without factoring population into account.

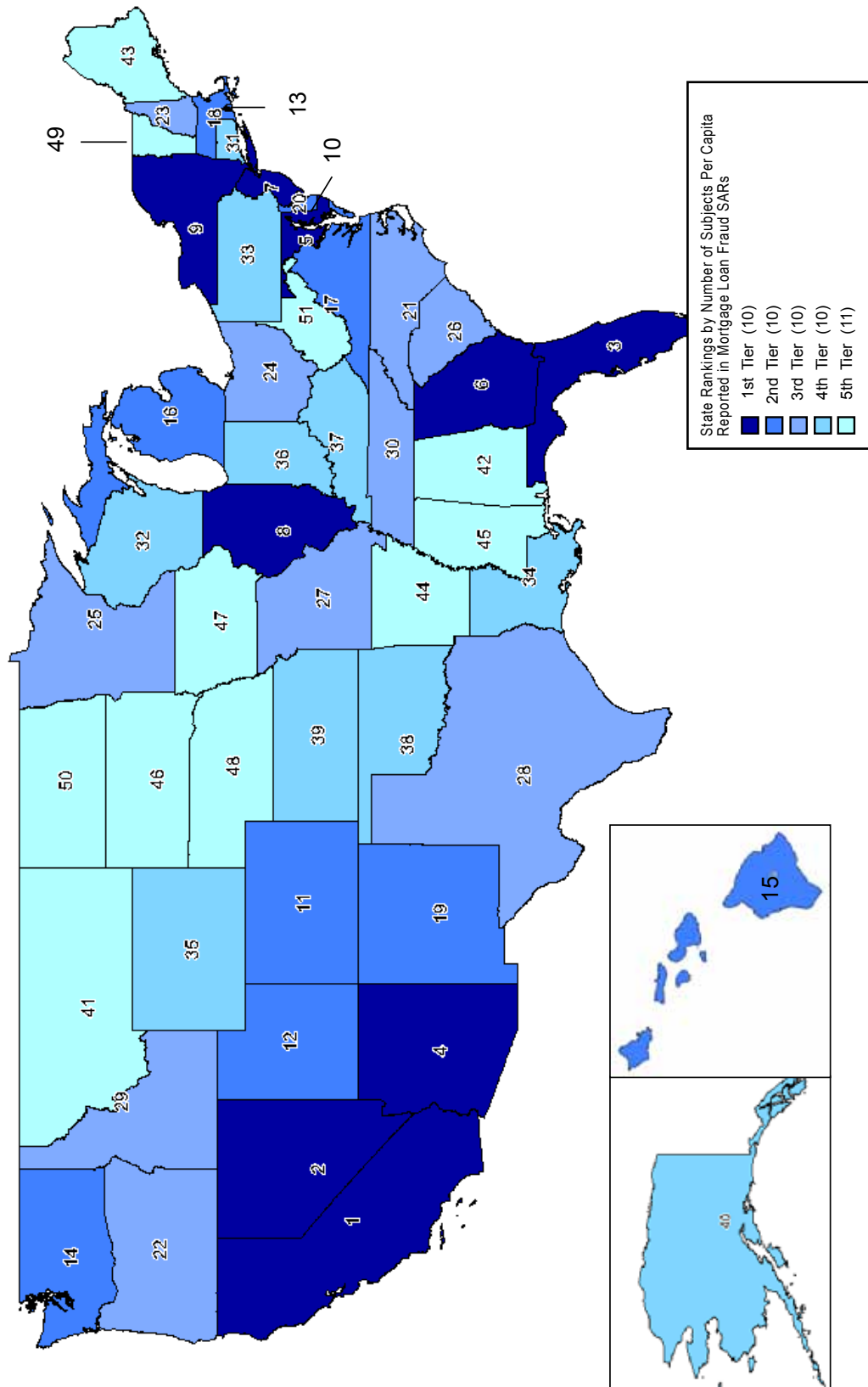
California was the number one ranked state for MLF subjects per capita and in total MLF SAR volume for CY 2012, as it was in CY 2011. For the 2012 calendar year, California was followed in the per capita rankings by Nevada, Florida, Arizona, and Washington, D.C. While Florida and Washington, D.C. held the same ranks in 2011, Nevada moved up from fourth last year, and Arizona moved up from seventh last year. Last year's number two ranked state, Hawaii, dropped to 15th in CY 2012.

Table 5: Mortgage Loan Fraud SAR Subjects					
Top 20 States and Territories					
State	CY 2012 Rank by total subjects	CY 2012 Rank by subjects per capita	State	CY 2012 Rank by total subjects	CY 2012 Rank by Subjects per capita
CA	1	1	CO	17	11
NV	15	2	UT	22	12
FL	2	3	RI	35	13
AZ	8	4	WA	11	14
DC	36	5	HI	33	15
GA	6	6	MI	9	16
NJ	7	7	VA	12	17
IL	4	8	MA	18	18
NY	3	9	NM	32	19
MD	13	10	DE	42	20

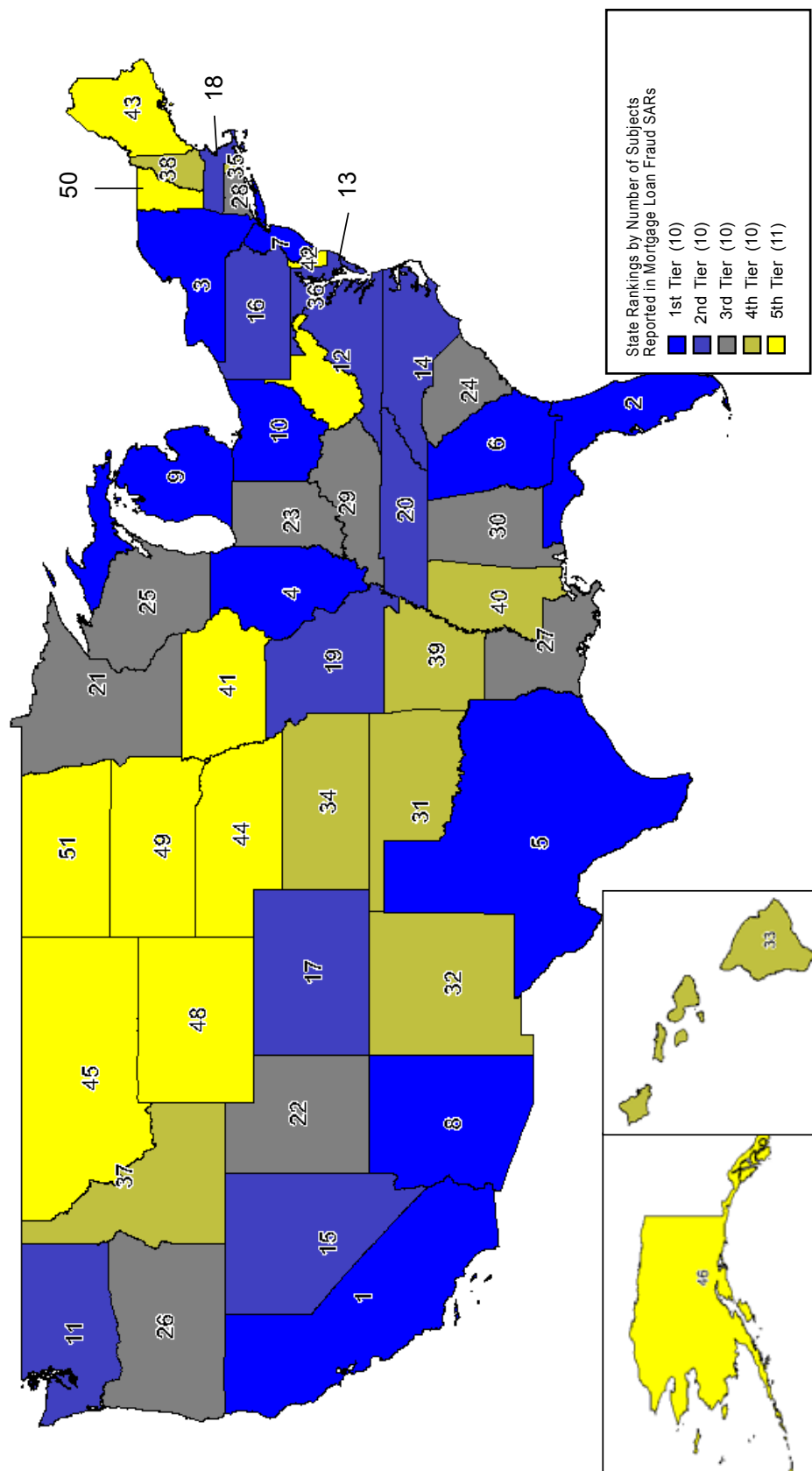
The following maps show mortgage fraud geographic concentrations reported in CY 2012 with relatively recent suspicious activity (dates starting after January 1, 2010). Maps show subjects by state, with concentrations based on total numbers of subjects and subjects per capita.

10. The amount of suspicious activity, loss prior to recovery, and recovery are reported in Part III of the legacy SAR-DI form, Fields 34, 36, and 37.

*Mortgage Loan Fraud SAR Subjects Per Capita
State Location Ranks, January – December 2012*



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

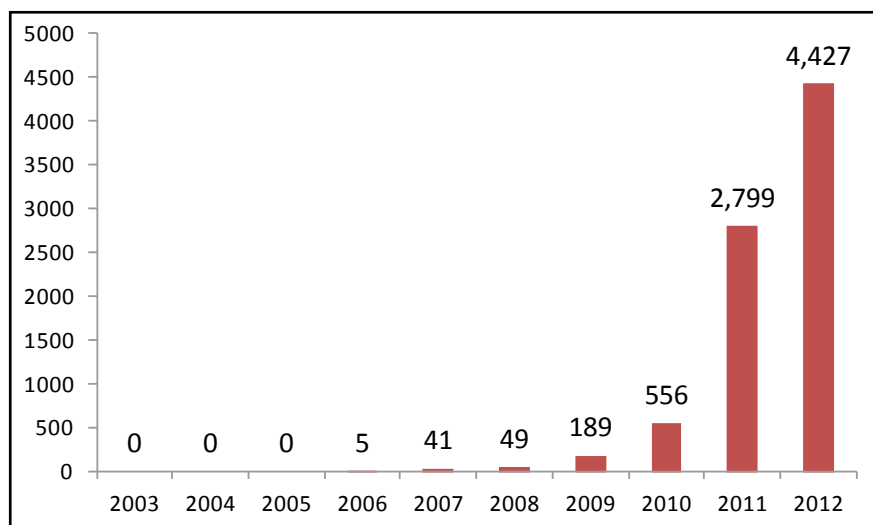


Current Issues

This section provides updated statistics on foreclosure rescue-related SARs filed during CY 2012, and filers' voluntary use of the FinCEN SAR for mortgage fraud reporting through March 31, 2013. In its October 2012 published mortgage fraud report, FinCEN addressed the dramatic growth in the number of SARs referencing "foreclosure rescue" scams in the narrative. FinCEN hypothesized that this substantial increase was partly a function of individuals or organized groups finding greater opportunities to commit fraud within the distressed portion of the mortgage market, compared with the opportunities to commit fraud within new loan originations. The increase in foreclosure rescue fraud may also have resulted from the greater attention that various government agencies have given to foreclosure rescue issues since 2009.

In the October 2012 report, FinCEN predicted that if "foreclosure rescue" SAR reporting continued at its first half of 2012 pace, FinCEN would receive more than 4,720 such reports for the entire year. As Figure 3 illustrates, the actual number of MLF SARs indicating "foreclosure rescue" in the narrative was 4,427 in CY 2012, up 58 percent from 2011 despite an overall decline in MLF SAR filings.

Figure 3: Number of Mortgage Loan Fraud SAR Filings by Year with Term "Foreclosure Rescue" in Narrative, 2003-2012

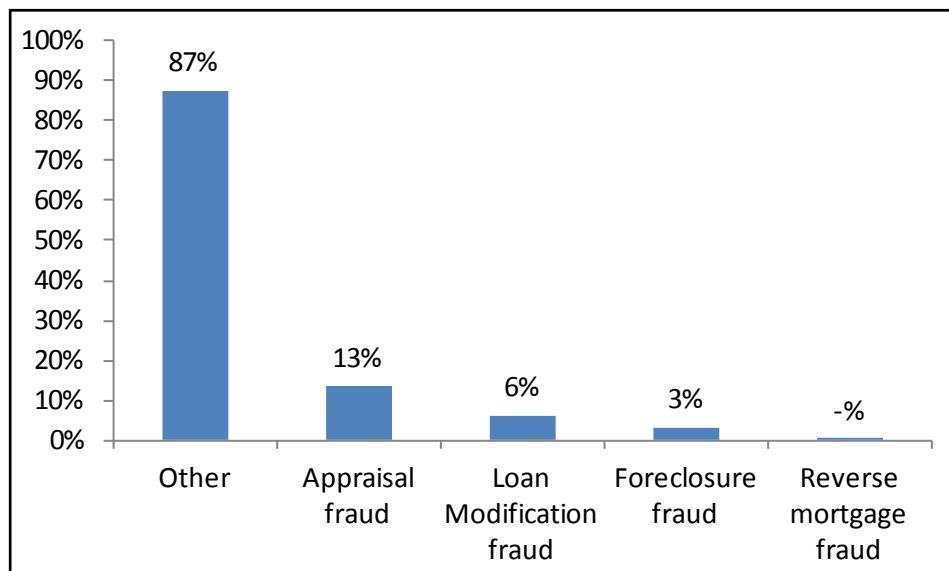


11. Please see http://fincen.gov/news_room/nr/files/MLFUpdateQ22012_FINAL508.pdf.

Anticipating continued law enforcement interest in foreclosure rescue and other types of mortgage fraud, FinCEN designed the “suspicious activity” section of the new FinCEN SAR to more clearly identify various types of mortgage-related fraud. This should make it easier for FinCEN and its law enforcement and regulatory partners to find and analyze SARs relevant to their specific mortgage fraud-related cases and projects.

Thus, while the legacy SAR-DI form had one “suspicious activity” box to check for all types of mortgage fraud (field 35, box P), the new FinCEN SAR has five fields in the mortgage fraud category, to highlight types of activity most actionable for law enforcement. In the mortgage fraud category, the new FinCEN SAR contains fields for “appraisal fraud,” “foreclosure fraud,” “loan modification,” and “reverse mortgage” fraud. It also includes a field for “other” MLF, allowing filers to provide a description of the fraudulent activity (with a 50 character limit).

Figure 4: Breakdown of Mortgage Fraud Suspicious Activity Information on FinCEN SAR Filed through March 31, 2013



Before the April 1, 2013, mandatory deadline for financial institutions to use the FinCEN SAR, FinCEN received 11,927 mortgage fraud reports using the FinCEN SAR instead of the legacy SAR forms. Figure 4 breaks down how filers categorized the type of mortgage fraud based on the five new activity fields. In the vast majority of filings (87 percent), filers selected the “other” field. Filers also identified “appraisal” fraud in 13 percent of filings, “loan modification” fraud in 6 percent, “foreclosure”

fraud in 3 percent, and “reverse mortgage” fraud in less than 1 percent of reports (18 filings). Because filers could choose more than one category, these figures total more than 100 percent.

To further describe “other” mortgage fraud, filers used 1,667 unique items in the 50 character field. Most of the fraud described was related to loan origination and borrower misrepresentations, which is consistent with FinCEN analysis of mortgage fraud in previous reports.¹² Statistically speaking, 38 percent of the FinCEN SAR filings specifically spelled out “origination fraud” in the “other” field. Filers frequently used words describing other common types of origination-related fraud, including borrower mis-representations of tax identification numbers (Social Security numbers and individual tax identification numbers), income tax records, employment, and occupancy of the loan property.

In addition, filers used some statistically less common phrases in the “other” field that may be of greater interest to law enforcement. Filers spelled out “debt elimination” (a type of foreclosure rescue scam), in 3 percent of the “other” mortgage fraud filings. Filers addressed short sales, including the terms “short sale fraud” and “short sale collusion,” in 4 percent of these filings. While less common statistically, but useful for law enforcement or regulatory purposes, filers also used phrases such as “straw buy(er),” “property value misrepresentation,” and “altered” (documents, bank statements, tax returns, etc.) each in 1 percent of the “other” mortgage fraud filings. Filers also identified fraud related to loan servicing, bogus payoffs, post-funding fraud, and FHA documents.

FinCEN believes that law enforcement and regulatory SAR users can find value when they search the SAR database by mining the text in the “other suspicious activity” field of mortgage fraud (and other types of) SARs. In addition, FinCEN encourages filers to continue using the 50 character “other” field as descriptively as possible, which will more clearly note for potential SAR users other noteworthy 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 CY 2012 report” in your email.

12. Please see http://www.fincen.gov/news_room/rp/files/MLF_Update_Q4_2011_508.pdf, pages 14-15.



www.FinCEN.gov