



# Suspicious activity?

## Go straight to the source

**Y**ou have detected cash transactions at your depository institution on a personal or small business account, which have deviated from the previous normal account activity. Does it rise to the level of filing a SAR? This single question is asked hundreds of times a day by Bank Secrecy Act/Anti Money-Laundering (BSA/AML) professionals around the world.

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ternative, large personal financing. By seeking a mortgage they limit their equity in a home to minimize personal financial loss if the property is identified and seized. Money launderers often use illicitly obtained funds to post collateral, make down payments and make loan payments.

## Property value manipulation

Manipulating the value of properties through over- or under-valuation is the third technique.

Over-valuation of real estate occurs when criminals manipulate the appraisal to indicate excess value for the property so they can obtain the largest possible mortgage. Under-valuation of real estate is accomplished when the criminals omit part of the purchase price so that the amount listed on the contract is paid for with a mortgage and the part that is not appearing on the contract is paid in cash under the table. When the property is sold at fair market value the criminal has converted the illegal income into what appears to be legitimate sales proceeds.

## Flipping properties

A fourth technique involves purchasing properties with illicit funds and selling them in a series of transactions, each time at a higher price. This process, called "flipping," could include the reclassification of agricultural land as building land. Parties involved in the numerous sales are from the same criminal organization and achieve two objectives when real estate is ultimately sold to legitimate buyers: Money is laundered, and profit is made from the sale.

## Construction and renovation

This technique involves paying for the construction or renovation of a home or commercial property with illicit cash. Its added benefit lies in taking advantage of the sizable, underground cash-based home renovation industry. Criminals are relieved

of cumbersome cash while the contractor receives cash payments that leave little evidence of evading taxes or other purposes. Upon completion of the project, the money launderer sells the property and obtains a check from the purchaser.<sup>1</sup>

## Income-producing

Properties bought or constructed using illegally obtained funds are frequently rented out, and illegal cash is mixed with the legitimate rental fees, making all funds appear as legitimate profit. Some cases show the active involvement of property management companies.

## Techniques using corporate vehicles, trusts and professionals

An FATF draft study, Money Laundering & Terrorist Financing through the Real Estate Sector, focused on the use of corporate vehicles, trusts and professionals.

Financial institutions should be especially concerned because the second most-often used laundering technique involves mortgages

## Corporate vehicles

An assortment of companies with diverse legal arrangements can be used for money laundering. Usually these companies are set up in jurisdictions with limited regulation and a strong reputation for bank secrecy; but they can be established in a criminal's home country as well. Offshore or shell companies are most vulnerable for misuse.

## Trusts

There are a number of kinds of trusts that may be used for laundering money through real estate. Trusts established for the sole

purpose of purchasing real estate provide the means to conceal the true beneficiary and source of funds. This makes it hard for financial institutions, other entities and professionals to carryout Know Your Customer (KYC) policies.

## Non-financial professionals

Money laundering cases reported to FATF included participation of various non-financial professionals. Money launderers have sought experienced professionals such as lawyers, tax advisors, accountants, financial advisers, notaries and registrars.

In some cases realty agents have provided assistance in accessing financial institutions to determine eligibility for a mortgage, open bank accounts, or contract for other financial products with the intention of giving the transaction greater credibility. In other cases non-financial professionals are part of the scheme and actually benefit from the transaction.

## Response by the real estate community to the challenge

The real estate professionals' role in the transaction places them in an ideal position to detect signs of money laundering or terrorist financing. The real estate sector needs to be encouraged by legislators and official agencies to take the steps necessary to carry out an effective program to both detect and prevent money laundering and terrorist financing.

Such a program would consist of reporting suspicious transactions, record keeping, enhanced due diligence of customers, training in typologies and additional controls appropriate to each entity or profession. **A**

James M. Wright, CAMS,  
senior advisor banking,  
U.S. Treasury Department, Virginia, U.S.A.,  
JamesMWright01@aol.com.

*The opinions expressed herein are the sole responsibility of the author and do not represent the opinion of any government.*

<sup>1</sup> Velez, Graciano, *The Social Cost of Money Laundering*, Motivos e Ideas, San Juan, Puerto Rico, August 2007