

The Internal Revenue Service Warns That . . . Real Estate Fraud Investigations Increase

FS-2003-18, December 2003

In recent years, the booming real estate market has helped increase mortgage fraud and other phony real estate related schemes. The perpetrators of these schemes range from mortgage brokers looking to make a fast buck to drug dealers laundering their ill-gotten gains. Every year, these fraudulent schemes victimize individuals and businesses from many walks of life, including struggling low-income families lured into home loans they can't afford, legitimate lenders saddled with over-inflated mortgages and honest real estate investors fleeced out of their investment dollars.

Through federal tax fraud investigations and money laundering charges, the Internal Revenue Service is playing a key role in the fight against real estate fraud.

The number of real estate fraud investigations initiated by IRS Criminal Investigation (CI) doubled in just two years (from 107 during the 2001 Federal Fiscal Year to 215 during FY 2003, which ended Sept. 30). Similarly, the average prison term handed out by federal judges to defendants in these schemes nearly doubled over the same period (from 24 months in FY 2001 to 46 months in FY 2003).

In addition, the IRS has more than 4,000 returns under audit involving individuals and entities associated with the real-estate business.

Some of the more common schemes seen by IRS criminal investigators include:

- **“Property Flipping”** – A buyer pays a low price for property, then resells it quickly for a much higher price. While this may be legal, when it involves false statements to the lender, it is not.
- **Two Sets of Settlement Statements** – One settlement statement is prepared and provided to the seller accurately reflecting the true selling price of the property. A second fraudulent statement is given to the lender showing a highly inflated purported selling price. The lender provides a loan in excess of the property value, and after the loans are funded, the proceeds are divided among the conspirators.
- **Fraudulent Qualifications** – Real estate agents assist buyers who would not otherwise qualify by fabricating their employment history or credit record.

In many real estate fraud cases, money laundering is often the mechanism used to hide income from the government. Money laundering is the process of attempting to make money earned illegally appear to be legitimate. Many criminal tax investigations focus on money laundering because it is often inseparable from tax evasion.

As the following statistics indicate, IRS criminal investigations of real estate fraud have increased.

Statistical Information	FY 2001	FY 2002	FY 2003
Case Initiations	107	166	215
Prosecution Recommendations	69	83	117
Indictment/Information Filed	67	71	94
Convictions	85	57	81
Sentenced	103	64	65
Incarceration Rate	71.8%	82.8%	87.7%
Average Months to Serve	24	27	46

Source: Internal Revenue Service



California
Title Company



Orange Coast
Title Company



Equity
Title



First Centennial Title
Company of Nevada



Advantage Title

