

 Fact Sheet

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## Real Estate Fraud Investigations

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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 between Fiscal Year (FY) 2001 and Fiscal Year 2003. Similarly, the average prison term handed out by federal judges to defendants in these schemes nearly doubled over the same period. FY2004 statistics reflect a three year high of the number of cases recommended for prosecution as well as indicted, convicted and incarcerated.

In addition, the IRS has thousands of 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, and 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 settled, 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 these real estate fraud cases, the income earned from these schemes is often laundered to hide the proceeds 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 continue to be an area of concern.

**Statistical Information\***

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Case Initiations	107	166	215	194
Prosecution Recommendations	69	83	117	148
Indictment/Information Filed	67	71	94	102
Convictions	85	57	81	89
Sentenced	103	64	65	78
Incarceration Rate	71.8%	82.8%	87.7%	92.3%
Average Months to Serve	24	27	46	41

**\* How to Interpret Criminal Investigation Data**

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year. Therefore, in fiscal year 2004, the data should reflect an increase in convictions and sentenced due to the fiscal year 2003 increase in case initiations, prosecution recommendations and indictments.

**Case Summaries**

The following case summaries are based on public record court documents on file in the judicial district in which the cases were prosecuted.

(Editor's Note: Case summary edited, April 19, 2005.)

### **North Carolina Man Sentenced in Real Estate Scheme**

On Sept. 2, 2004, in Greensboro, N.C., George Monk was sentenced to 87 months in prison, followed by three years supervised release, fined \$200, and ordered to pay \$224,368 in restitution after pleading guilty to numerous tax and fraud charges. Monk and others devised a scheme to utilize various mortgage brokers to submit materially false information to mortgage lenders to obtain mortgage loans. Monk recruited individuals to act as purchasers “straw-buyers”. He then deceived them into believing that following the purchase of the real estate in their names, that he would pay all monthly mortgage payments and promptly transfer the parcels of real property out of the straw-buyers’ name. Monk failed to pay the monthly mortgage payments allowing the property to go into default and causing the sale of the property through foreclosure.

### **Real Estate Company Owner Sentenced to 27 Months for Money Structuring**

On April 13, 2004, in Providence, R.I., William Ricci was sentenced to 27 months in prison fined \$20,000 and ordered to perform 1,000 hours of community service for a money-structuring scheme. Ricci admitted that he generated the appearance of business cash flow by cashing checks at a check-cashing company and depositing cash and money orders generated by those checks into various business accounts. In February 1998, Ricci embarked on a scheme to obtain financing for his various real estate companies by submitting fraudulent documentation that artificially inflated the value of the companies. Ricci generated the false appearance of cash flow in those companies by cashing a series of checks all for amounts of less than \$10,000, and depositing the cash and money orders obtained with those checks into his company accounts. Some of the checks Ricci cashed were payable to himself. Others were payable to existent and non-existent third parties who were made to appear as if they were subcontractors. Ricci admitted that, between February 1999 and December 1999, he structured approximately \$1,307,498 with 400 checks, all for amounts less than the \$10,000 reporting level.

### **Links:**

- Tax Fraud Alerts — <http://www.irs.gov/compliance/enforcement/article/0,,id=121259,00.html>
- Report suspected tax fraud: 1-800-829-0433