



# UNDERSTANDING AND MITIGATING ML/TF RISKS IN THE REAL ESTATE SECTOR

CFATF RESEARCH DESK  
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## Why is real estate attractive for criminals?

- ML through property transactions easily integrates illicit funds into the legal economy, while providing a safe investment. (1)
- It allows large amounts of money to be laundered in one transaction. (2)
- Provides a means for obscuring the true source of the funds and the identity of the (ultimate) beneficial owner of the real asset, which are two key elements of the money laundering process. (3)
- Prices remain stable and likely to appreciate over time, especially with renovations. (4)

### Sources:

(1) Financial Intelligence Centre, South Africa. 2022. "Assessment of the inherent money laundering and terrorist financing risks Real Estate Sector".

(2) Accuity, 2021. "Money laundering and real estate: Why the real estate sector should prepare for regulation".

(3) FATF/OECD 2008. "Money Laundering & Terrorist Financing through Real Estate".

(4) European Parliamentary Research Service. 2019. "Brief: Understanding money laundering through real estate transactions".



## Why is real estate attractive for criminals?

- Property can also be used as a second home or rented out, thus generating income. (5)
- Provides a veneer of respectability, legitimacy and normality. (6)
- The real estate sector is perceived as having less stringent AML/CFT controls and regulation. (7)
- Purchasing property is one way to integrate illicit money into the legal economy.

### Sources:

(5) Ibid.

(6) FATF/OECD 2008. "Money Laundering & Terrorist Financing through Real Estate".

(7) European Parliamentary Research Service. 2019. "Brief: Understanding money laundering through real estate transactions".



## Key Risks and Vulnerabilities in the Real Estate Sector include:



Large number of cash transactions.



Transactions involving opaque legal entities that obscure the natural persons who benefit from such property ownership.



Complicit professionals in the real estate industry.



## Key Risks and Vulnerabilities in the Real Estate Sector include:

Source: Congressional Research Service. 2022. "Money Laundering in the U.S. Real Estate Sector".



All-cash sales of high-value real estate that do not involve mortgage lenders.



Schemes can involve a wide range of domestic and transnational criminals, such as drug traffickers and kleptocrats.



Difficulty in pinpointing the transactions associated with ML/TF due to its international nature.





Between 2015 to 2020, it was estimated that:

***USD\$2.3 billion*** was laundered through real estate in the U.S.

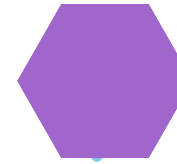
***USD\$1.1 billion*** was laundered through real estate in the United Kingdom.

***USD\$626.3 million*** was laundered through real estate in Canada.





## Real Estate ML Methods and Techniques include:



### *Loan-Back Schemes*

- Criminals lend themselves money to create the appearance of legitimacy regarding the source of funds.

### *Back-to-Back Loan Schemes*

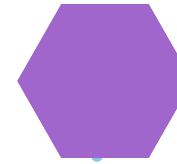
- Financial institution lends money based on borrower's collateral, but the collateral originates from criminal or terrorist activities.

### *Use of non-financial professionals.*

- Use of elaborate schemes to work around AML/CFT controls which involve professionals such as lawyers and accountants to create the structures needed to move illicit funds unnoticed.



## Real Estate ML Methods and Techniques include:



### *Use of corporate vehicles.*

- These are used to obscure the identities of the beneficial owners. Also, shell and other other specialised companies can be misused for ML purposes.

### *Manipulation of the appraisal or valuation of a property.*

- This involves the overvaluing or undervaluing of a property followed by a succession of sales and purchases.

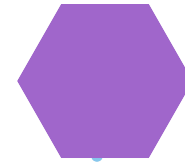
### *Use of investment schemes and financial institutions.*

- Criminal organisations can influence property investment funds in various ways, depending on their degree of involvement.





## Real Estate ML Methods and Techniques, include:



### *Use of monetary instruments.*

- The use of monetary instruments has traditionally dealt primarily with the use of cash. Other monetary instruments used by criminals in their real-estate activities are cheques and wire transfers through conduit or correspondent bank accounts.

### *Use of mortgage schemes.*

- This involves the overvaluing or undervaluing of a property followed by a succession of sales and purchases.

### *Use of investment schemes and financial institutions.*

- Criminal organisations can influence property investment funds in various ways, depending on their degree of involvement.

Source: FATF/OECD 2008. "Money Laundering & Terrorist Financing through Real Estate". Paris, France.



## Mitigating ML/TF Risks in the Real Estate Sector

### Financial Action task Force (FATF) Requirements

The customer due diligence (CDD) and record-keeping requirements set out in Recommendations 10, 11, 12, 15, and 17, apply to real estate agents when they are involved in transactions for their client concerning the buying and selling of real estate; lawyers, notaries, other independent legal professionals and accountants when they prepare for or carry out transactions for their client concerning buying and selling of real estate.



## Mitigating ML/TF Risks in the Real Estate Sector

### Adopting a Risk-Based Approach (RBA)

- Gatekeepers in real estate transactions are a wide range of professionals governed by different regulations and AML obligations that require them to assess risks and report them if necessary.
- Real estate agents should identify the criteria to assess potential ML and TF risks.



## Mitigating ML/TF Risks in the Real Estate Sector

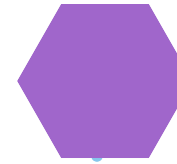
### Adopting a Risk-Based Approach (RBA)

- Application of risk categories provides strategy for managing potential risks by enabling real estate agents to subject customers to proportionate controls and oversight.
- The weight given to each category (individually or in combination) in assessing the overall risk of potential ML/TF would be determined by the real estate agent.





## ML/TF Risk Categories in the Real Estate Sector



### *Products and Services risk*

- The ML risks associated with different types of properties may vary considerably.

### *Country/geographic risk*

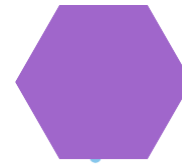
- Estate agencies must be aware of the risks from jurisdictions that have a higher risk for ML.

### *Customer risk*

- Some types of clients, such as foreign and domestic influential persons and legal structures may pose a potentially higher risk for ML.



## ML/TF Risk Categories in the Real Estate Sector



### *Transaction risk*

- Risks are associated with the financing of the transaction, parties to the transaction and factors related to the property.

### *Delivery channel risk*

- There should be an awareness of the potential higher ML risks associated with the use of alternative delivery channels due to the possibility that parties to the transaction may conceal their identities.



## Mitigating ML/TF Risks in the Real Estate Sector

### Intersection between ML Transactions and the Regulated AML/CFT Sector

- Suspicious transaction reporting (STR) must take place when there is suspicion or reasonable grounds to suspect that funds are the proceeds of ML/TF. (8)
- FIs and DNFBPs must develop and demonstrate to regulators that they have robust AML screening and compliance procedures in place.



## Mitigating ML/TF Risks in the Real Estate Sector

### Intersection between ML Transactions and the Regulated AML/CFT Sector

- FIs and DFNBNPs should conduct more detailed and intensive CDD, including KYC checks and PEP screening.
- Prepare regular AML compliance reports and keep documentation for the relevant authorities.





## Mitigating ML/TF Risks in the Real Estate Sector

### Intersection between ML Transactions and the Regulated AML/CFT Sector

- Estate agencies must conduct thorough assessments of property transactions based on risk profile. This may provide indications that raise red flags. (9)
- Prepare regular AML compliance reports and keep documentation for the relevant authorities.



**Thank you!**



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