

Beware of money laundering through real estate

The Swedish Financial Intelligence Unit (FIU) would like to draw the attention of banks, real estate agents and other reporting entities to the risks of money laundering through real estate. Intelligence data confirms that the Swedish real estate sector is being used for money laundering.

Several factors make the real estate market attractive for money laundering or investing of illicitly gained funds:



Real estate offers low-risk investments that generate a stable income in the form of rents.

Rental income may be used as an explanation for money that stems from illicit activities.

Loans can be paid off using criminal gains.

High transaction amounts allow for large-scale money laundering schemes.

Red flags

The following activities could indicate money laundering in connection with real estate transactions and hence be subject to reporting to the FIU.

- **Irregularities regarding the financing of a purchase or construction work**
Non-standard financing solutions may be a signal that the money derives from criminal activity. The financing can involve cross-border money transfers, sometimes referring to the selling of property abroad. Another example is money borrowed from other individuals or non-financial companies.
- **Third-party purchases**
When there is reason to believe that the buyer of a residential property has no intention of living there, the purchase could be made on behalf of a criminal, such as a relative.
- **Property ownership through trusts or foundations**
Purchases of real estate through trusts or foundations can also allow for investing of illicit funds while disguising the true ownership. Extensive due diligence measures may be required to ensure that this is not the case.
- **Residential property owned by companies**
For the same reason, residential property bought by companies should raise a red flag, especially if the company is based abroad.
- **Transactions on client fund accounts**
Client fund accounts can be used for money laundering. A common modus operandi is transferring the down payment from several accounts with different account holders. There are also examples of real estate agents that actively facilitate money laundering by allowing for transactions on the client fund account, other than down payments.

- **The contracted amount deviates from the current market price**

Furthermore, there are real estate agents who enable money laundering by under- or overvaluing a property. If the contracted price is below the estimated market value, there may have been an additional payment “under the table”. The overvaluation of property, on the other hand, could be part of a mortgage fraud.

Insiders facilitate mortgage loans based on false documents

Mortgages based on false documents, such as falsified income records and manipulated bank statements, are fairly wide-spread within the criminal communities. The administration of mortgages is known to be offered to criminals as a service, often involving bank insiders.

During the past year, the Swedish FIU detected several fraud schemes where clusters of individuals, during a short time span, used the same bank to apply for mortgages based on false documents. There are mainly two types of schemes:

- Criminals who need a mortgage to finance the purchase of a residential property
- Loan frauds where there is no intention of paying off the debt

The loan frauds can involve a third-party buyer who purchases a property that is subsequently overvalued significantly by the help of a real estate agent or a bank insider. The property is then used as collateral for a mortgage loan and the criminal parties split the money.

The granting of a mortgage loan or a loan commitment should therefore always be preceded by a thorough due diligence process. Also, a more centralised administration of mortgages would likely reduce the risk of criminals exerting pressure on individual clerks to be used as insiders.

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