

MONEY LAUNDERING RED FLAGS

LENDING

This document lists various transactions and activities that may indicate potential money laundering. While not all-inclusive, the list does reflect ways that launderers have been known to operate. Transactions or activities listed here may not necessarily be indicative of money laundering if they are consistent with a customer's legitimate business. Also, many of the "red flags" involve more than one type of transaction.

1. **Certificates of deposits used as collateral.** An individual buys certificates of deposit and uses them as loan collateral. Illegal funds can be involved in either the CD purchase or utilization of loan proceeds.
2. **Sudden/unexpected payment on loans.** A customer may suddenly pay down or pay off a large loan, with no evidence of refinancing or other explanation.
3. **Reluctance to provide the purpose of the loan, or the stated purpose is ambiguous.** A customer seeking a loan with no stated purpose may be trying to disguise the true nature of the loan. The Bank Secrecy Act requires the bank to document the purpose of all loans over \$10,000, with the exception of those secured by real property.
4. **Inconsistent or inappropriate use of loan proceeds.** There may be cases of inappropriate disbursement of loan proceeds, or disbursements for purposes other than the stated loan purpose.
5. **Overnight loans.** A customer may use "overnight" loans to create high balances in accounts.
6. **Loan payments by third parties.** Loans that are paid by a third party could indicate that the assets securing the loan are really those of a third party, who may be attempting to hide the ownership of illegally, gained funds.
7. **Loan proceeds used to purchase property in the name of a third party, or collateral pledged by a third party.** A customer may use loan proceeds to purchase, or may pledge as collateral, real property in the name of a trustee, shell corporation, etc.
8. **Permanent mortgage financing with an unusually short maturity.** Permanent financing of a large mortgage on an unusually short term.
9. **Structured down payments or escrow money transactions.** An attempt to "structure" a down payment or escrow money transaction may be made in order to conceal the true source of the funds used.

10. **Attempt to sever the paper trail.** Attempts may be made by the customer or bank to sever any paper trail connecting a loan with the security for that loan.
11. **Wire transfer of loan proceeds.** A customer may request that loan proceeds be wire transferred for no apparent legitimate reason.
12. **Disbursement of loan proceeds by multiple bank checks.** A customer may request disbursement of loan proceeds in multiple bank checks, each under \$10,000. The customer can then negotiate these checks elsewhere for currency. He/she avoids the currency transaction reporting requirements and severs the paper trail.
13. **Loans to companies outside the U.S.** Unusual loans to offshore customers, and loans to companies incorporated in so-called “secrecy havens” are higher risk activities.
14. **Financial statement.** Financial statement composition of a business differs greatly from those of similar businesses.