



GLOBAL FINANCIAL INTEGRITY

“Illicit Finance and Real Estate Opacity in Alaska”

April 22, 2022

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## Introduction

Good morning, and thank you for letting me testify before you on this important issue of real estate opacity in Alaska. For the record, my name is Kaisa de Bel and I am a policy analyst affiliated with Global Financial Integrity (GFI). GFI is a Washington D.C.-based think tank focused on providing evidenced-based research and solutions to counter the ways in which criminal actors abuse the US economy to hide their illicit profits.

## The U.S. real estate market as a safe haven for illicit wealth

Sanctioned governments, kleptocrats and drug traffickers have long used the U.S. real estate sector as a vehicle to evade sanctions and hide their ill-gotten gains.

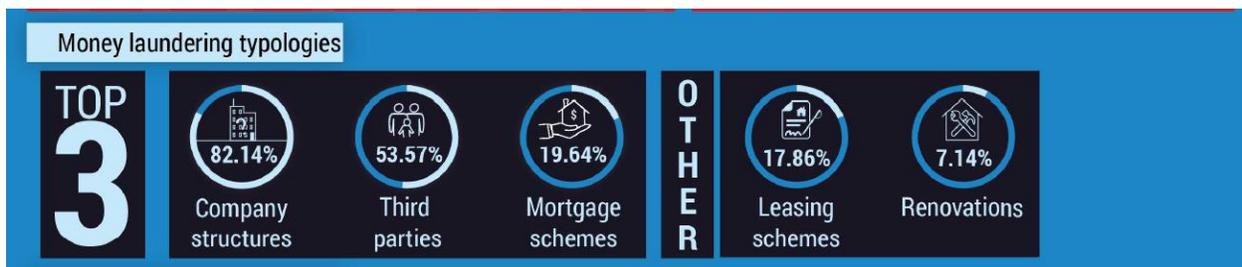
Simply put, real estate is an attractive safe haven for illicit money because it retains value, while also creating the opportunity for long-term profits through rentals, property flips and land development. Most significantly, the U.S. real estate market permits the anonymous purchase of real estate through shell companies and trusts. This makes it easy for bad actors and criminals to hide their identity. This in turn protects their wealth from asset recovery efforts – both in their home jurisdiction and in countries where they are sanctioned.

## Vulnerabilities and risks of the U.S. real estate market

Recent investigative efforts like the Pandora Papers are just one in a long line of reports exposing high-profile real estate money laundering cases that span the country. Last year, GFI published a report that found that more than \$2.3 billion was laundered through U.S. real estate in cases between 2015 and 2020.<sup>1</sup> GFI's analysis of those cases shows two very clear trends.

First, the most common money laundering technique in the real estate sector is the use of complex legal structures to purchase the properties. The use of trusts and companies makes it easy for criminals to hide ownership of real estate, while at the same time being able to flaunt in plain sight the evidence of ill-gotten wealth. Sometimes these were companies and trusts registered domestically, but it also often featured companies registered abroad.

*Image A – Real estate money laundering typologies in the U.S.<sup>2</sup>*

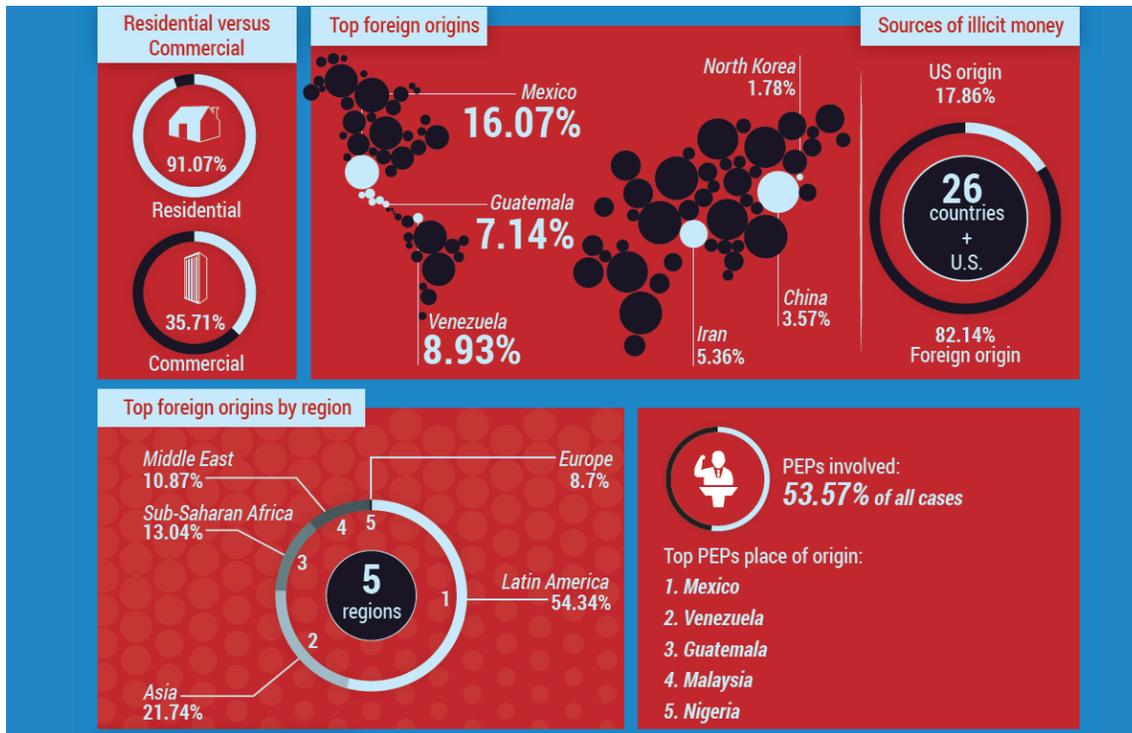


<sup>1</sup> Global Financial Integrity (2021). "Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream." <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>.

<sup>2</sup> Ibid, p. 16.

A second trend found in GFI’s analysis, is that the U.S. real estate sector particularly attracts actors with political ties to foreign regimes including foreign adversaries like North Korea, Iran and Venezuela. In 82% of the analyzed cases, the illicit money invested in the real estate sector had foreign origins. In more than half of the cases, the beneficial owner of the property was a corrupt foreign politician or their associate who obtained their wealth through corrupt activities. This high influx of foreign and corrupt money poses a serious threat to U.S. national security and global democratic norms.

Image B – Sources of illicit money in U.S. real estate<sup>3</sup>



### Sanction evasion through the Alaska real estate market

The Alaskan real estate market has not been excluded from this trend that threaten U.S. national security. For instance, between 2011 – 2014, Alaska resident Kenneth Zong helped the Iranian government transfer \$1 billion to various businesses and individuals around the world, in violation of the U.S. sanctions regime. Zong received \$10 million dollars for his role in the scheme, and laundered this money through real estate purchases in Alaska.<sup>4</sup> Through various shell companies, he held more than 20 condominiums and homes in Anchorage and Eagle River.<sup>5</sup>

<sup>3</sup> Ibid.

<sup>4</sup> U.S. Department of Justice. (2020, June 3). Justice Department Seeks Forfeiture of More than \$20 Million in Assets Relating to Unlawful Use of U.S. Financial System to Evade and Violate Iranian Sanctions. <https://www.justice.gov/opa/pr/justice-department-seeks-forfeiture-more-20-million-assets-relating-unlawful-use-us-financial>.

<sup>5</sup> Shedlock, J. (2014). Government aims to seize Anchorage properties of man allegedly involved in \$1B international money laundering scheme. Anchorage Daily News. <https://www.adn.com/crime-justice/article/government-aims-seize-anchorage-properties-man-allegedly-involved-1b-international/2014/06/28/>.

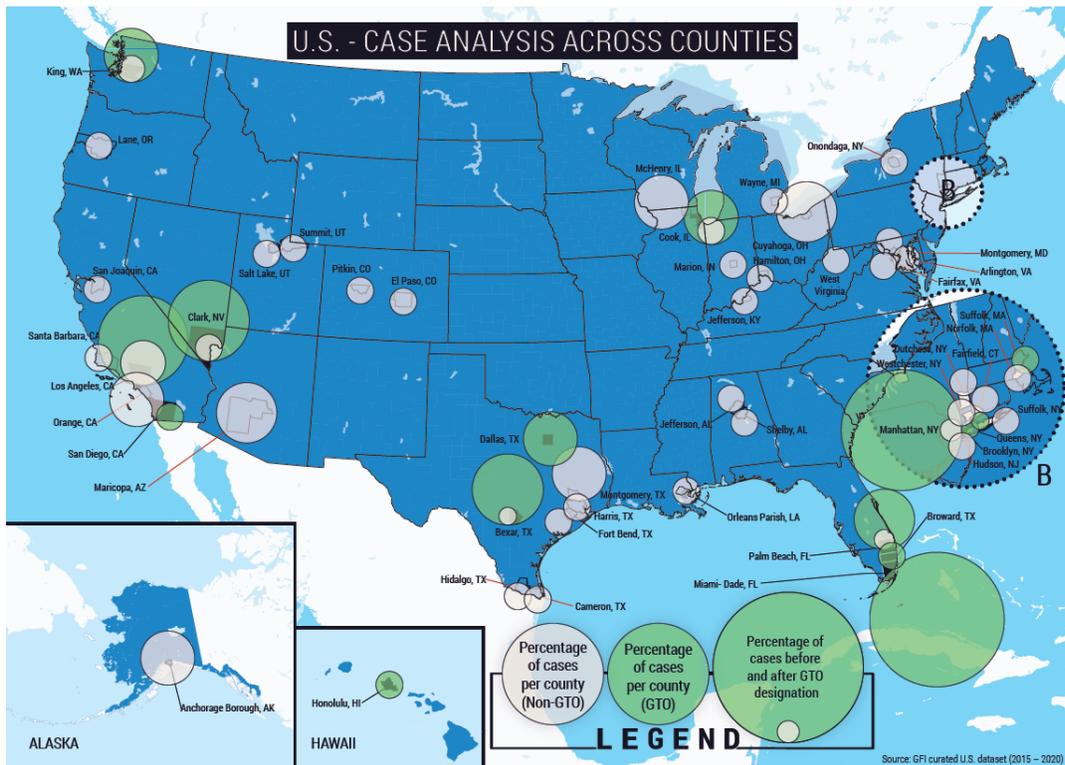
## Loopholes in federal legislation and regulation

Despite these risks across the country, real estate transactions are subject to limited federal oversight. The only binding federal regulation focused on real estate risks are Geographic Targeting Orders (GTOs). These temporary orders issued by the Financial Crimes Enforcement Network (FinCEN), require title insurance companies to report the beneficial owner of residential real estate purchases – but only in a select group of 22 counties across the country.

This policy has several serious shortcomings, and is inadequate to address real estate money laundering and sanctions evasion risks.

First, the GTOs do not apply in Alaska. In fact, GFI's research found that the majority of real estate money laundering cases involved properties located outside of the GTO geographic scope, with Alaska proving to be one of the bigger real estate money laundering hubs.

*Image C – Real estate money laundering cases across the U.S.<sup>6</sup>*



Further, even if the GTOs would apply in Alaska, it would be very easy to get around them because title insurance is only mandatory when the buyers takes out a loan. Kleptocrats, oligarchs and high net worth criminals have plenty of cash at their disposal to acquire real estate without a loan or title insurance, thereby evading the GTOs.

<sup>6</sup> GFI, Acres of Money Laundering, p. 27.

While the Corporate Transparency Act passed by Congress last year will address some of the weaknesses related to the opacity in the U.S. real estate sector, it would not help in identifying the beneficial owner of a foreign company or LLC buying real estate, which is just as common.

### Priorities for Alaska

Given the loopholes in the federal regulatory system, it is critical to seek solutions at the state level to address these gaps. GFI therefore supports House Bill 406 as an important step to address the opacity in the real estate sector in Alaska.

To ensure that House Bill 406 brings greater transparency without loopholes for bad actors to exploit, GFI urges Alaska to incorporate the following policy recommendations:

1. At a minimum, the basic goal of House Bill 406 should be to create a clear picture of the beneficial ownership of real estate in Alaska. The requirement of identifying the beneficial owner should apply to all legal entities buying real estate, including LLCs, trusts and other legal entities formed and registered in the U.S., as well as abroad.
2. In addition to beneficial ownership, the source of funds and the identification of politically exposed persons should also be reported. These two additional key pieces of information are critical to spot red flags in a transaction and identify high-risk actors.
3. Instead of putting the reporting burden on one gatekeeper, it should be placed on multiple real estate professionals in cascading order. This creates a shared responsibility among real estate professionals, and prevents bad actors from evading the requirement by bypassing a title agent.
4. The bill should apply to all real estate transactions not financed with a loan from a U.S.-based financial institution, because those are currently the only actors who are required under federal law to conduct anti-money laundering checks in a real estate transaction.

These reforms would make H.B. 406 more effective while at the same time ensure it has minimal costs on Alaskan real estate professionals.

In conclusion, Alaska has the opportunity to counter the use real estate as an easy mechanism for bad actors to evade sanctions, gain access to the U.S. dollar and the U.S. financial system. We encourage you to take this opportunity.

Thank you again for your time today and I look forward to any questions you may have.