Mind the Gap: US Geographic Targeting Orders (GTOs) Serve as an Ongoing Temporary Solution for Non-Financed Residential Real Estate Transactions

For 25 years since the USA PATRIOT Act, Certain Persons Involved in Residential Real Estate Closings and Settlements have been Exempted from Anti-Money Laundering (AML) Record Keeping and Reporting Requirements

Installment Two of a Six-Part Series

StratisAdvisory

RISK | STRATEGY | CYBER COMPLIANCE MANAGEMENT

Geographic Targeting Orders: Structuring the Unstructured

Overview

The USA PATRIOT Act, which was passed in 2001 after the 9/11, marked a turning point for America's fight against money laundering and terrorist financing. Its extensive anti-money laundering (AML) obligations are far reaching, that banks and most financial institutions are required to execute customer identification programs, suspicious activity reporting, and risk-based compliance frameworks, except for one sector that has remained conspicuously outside its scope: non-financed residential real estate transactions (or all-cash transactions). This created a blind spot in the US's AML regime, leaving a critical channel for illicit finance.

Real Estate Exemption: Loophole in the Fight Against Illicit Finance

When the USA PATRIOT Act was drafted, the real estate industry was not included as a "covered financial institution." As a result, title companies, brokers, and agents were exempt from stringent and evolving Bank Secrecy Act (BSA) AML program requirements. The loophole allowed anonymous LLCs and shell companies to purchase US properties without scrutiny, creating a flourishing ground for money laundering. The exemption undermined the very law that mandates comprehensive transparency, leaving regulators and law enforcement agencies with limited visibility into large unregulated transactions.

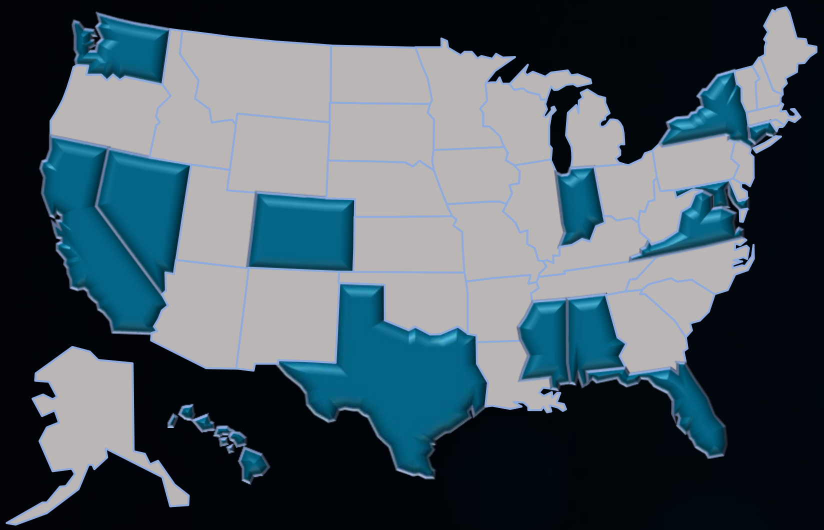
AML Compliance in America's Real Estate Industry

In an attempt to close the loop, since the USA PATRIOT Act was enacted, the Financial Crimes Enforcement Network (FinCEN) has issued more than 20 successive Geographic Targeting Orders (GTOs) to Covered Businesses, typically those serving as agents of title insurance companies. These temporary directives require enhanced reporting to FinCEN on all-cash purchases of residential real-estate by legal entities in more than 30 US counties. A universal approach was attempted with the Residential Real Estate Rule of 2024 (RRE Rule), only to be withdrawn in March 2026 due to legal challenges.

> *"The financed portion of the US real estate market is well regulated and banks and non-bank lenders that issue residential and commercial mortgages and housing-government-sponsored enterprises, must establish AML/CFT programs and file SARs. However, an estimated 20 to 30 percent of residential real estate purchases in the US are non-financed and not fully subject to comprehensive AML/CFT requirements. Since 2002, "persons involved in real estate closings and settlements" have received a temporary exemption from compliance as a financial institution from FinCEN and are exempt from instituting and maintaining comprehensive AML/CFT programs."*
>
> – FinCEN, "2024 National Money Laundering Risk Assessment", (February 2024)

GTOs Shift Focus from Money Services Businesses to Real Estate

GTOs originated under the BSA as a tool to monitor cash transactions in geographic locations tied to drug trafficking and money laundering. In the early years, GTOs were used in counties to monitor large cash deposits and currency exchanges linked to narcotics trafficking with money services businesses (MSBs) such as check cashers and money transmitters in high-risk areas. 2016 marked a shift to near exclusive use of GTOs covering agents of title insurance companies for all-cash purchases of luxury residential real estate by legal entities in select markets such as Manhattan, Miami, and Los Angeles.



Year	County	Target
1996	New York	Money Remitters
2014	Los Angeles	Fashion Apparels
2015	Southwest	Money Services Business
2016	Manhattan	Real Estate
	Miami-Dade	
2017	Honolulu	Real Estate, Wire Transfers
2018	Las Vegas	Real Estate
2021-2025	Renewed	Real Estate

**From 2016, the table only indicated significant additions to the expanding list of counties where GTOs were issued. To date, there are more than 70 counties covered across 14 US states.*

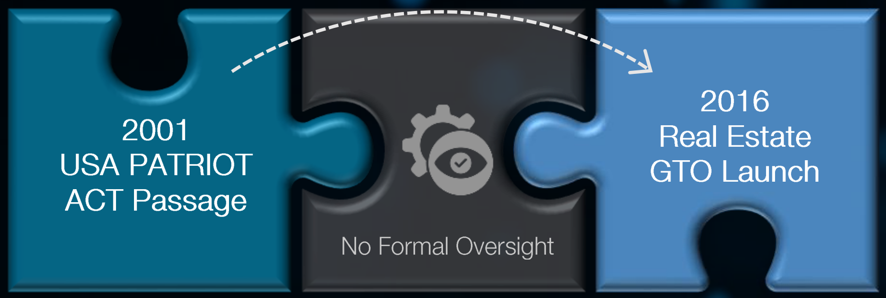
With the Customer Due Diligence (CDD) Final Rule issued on May 11, 2016 and effective on May 11, 2018, GTOs supplemented the real estate industry gap on certain non-financed residential real estate transactions requiring the identification of a beneficial owner, i.e., an individual who, directly or indirectly, owns 25% or more of the equity interests of the purchaser. Prior to 2016, all non-financed residential real estate transactions created an opportunistic blind spot for illicit finance: No recordkeeping and reporting requirements such as maintaining an AML program, beneficial ownership identification and verification, and suspicious activity reporting (SAR) reporting.

Minding the [Regulatory] Gap

For 25 years, the USA PATRIOT Act stood as the cornerstone of America's AML regime, yet its exemption of real estate professionals created a blind spot that invited abuse. Shell companies became the vehicle of choice for concealing wealth, from Russian senators and Mexican governors buying multimillion-dollar condos at the Time Warner Center to Malaysian elites tied to the 1MDB scandal laundering billions through Beverly Hills mansions and financing Hollywood films like The Wolf of Wall Street.

Laundering money through residential real estate involves turning the proceeds of crime into the use or ownership of real property assets. Non-financed residential real estate provides an opportunity to park illicit funds into a high-value purchase, whether beach front condominiums or single-family homes, that can be utilized in the placement, layering, and integration stages of money laundering.

In essence, they are 'cash hogs' as residential real estate is considered a person's single most valuable purchase of their lifetime, valuations fluctuate and are market based, can be short- or long-term strategies, and are attractive assets to place funds into foreign jurisdictions.



A non-financed transaction typically follows a basic purchase structure that consists of an offshore shell company, an LLC, serving as the owner of the property with a nominee such as a lawyer serving as the power of attorney as the individual on all documentation. The structure keeps at arms length the true owner and source of funds.

As noted by the Government Accountability Office's ("GAO") "Anti-Money Laundering-FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders" Report published on July 2020, the GAO confirmed that FinCEN's stopgap, the GTOs, though useful, suffered from weak oversight and delayed enforcement, underscoring how the gap persisted for decades.

GTOs Attempt to Close the Gap Anonymous Real Estate Transactions

FinCEN issued the real estate GTOs shortly after *The New York Times* series entitled "Towers of Secrecy," first published on February 7, 2015, which exposed how shell companies were used to anonymously buy luxury real estate. To counter, the GTOs required title insurers to identify the beneficial owners behind all-cash purchases in Manhattan and Miami, marking the first federal attempt to pierce the veil of secrecy in US residential real property markets.

Over time, the GTO reporting thresholds dropped from $3 million to $300,000 USD, coverage expanded to major cities nationwide, and new payment methods like wire transfers and virtual currency were added. GTOs remain limited and lack a universal approach. In 2024, the RRE Rule sought to close the loop starting March 1, 2026; however, the RRE Rule was vacated on March 19 and is no longer enforceable.

Features	GTO 1 (Mar 2016 – Aug 2016)	GTO 2 (Aug 2016 – Feb 2017)	GTO 3 (Feb 2017 – Aug 2017)	GTO 4 (Sep 2017 – Mar 2018)	GTO 5 (Mar 2018 – Sep 2018)	GTO 6 (Nov 2018 – May 2019)	GTO 7, 8, & 9 (May 2019 – Nov 2020)
Purchase Reporting Threshold	≥ $ 1M – 3M (depending on the geographic area)	≥ $ 500K – 3M (depending on the geographic area)	No change	No change	No change	≥ $ 300K (for all geographic areas)	No change
Monetary Instruments Covered	• Currency Money Order • Checks (cashier's, certified, traveler's)	• Currency Money Order • Checks (personal, business)	No change from previous	Added funds transfer	No change from previous	Added virtual currency	No change from previous
Geographic Areas Covered	• NY: Manhattan • FL: Miami-Dade	• NY: Brooklyn, Queens, Bronx, Staten Island • FL: Broward, Palm Beach • CA: San Diego, Los Angeles, San Francisco, San Mateo, Santa Clara • TX: Bexar	No change	• HI: Honolulu	No change	• TX: Tarrant, Dallas • NV: Clark • WA: King • MA: Suffolk, Middlesex • IL: Cook	No change

US AML Laws on Real Estate Lag Behind other Key Jurisdictions

While the US relied on GTOs from 2016 onwards, other jurisdictions already established permanent AML obligations of their real estate industry years earlier. Although the RRE Rule sought to institutionalize these obligations nationwide, its withdrawal in 2026 meant the recordkeeping and reporting requirements remain unresolved and the US lags other Financial Action Task Force (FATF) members and regions. As of today, persons involved in US real estate closings and settlements are not covered under the BSA.

	Canada	United Kingdom	European Union	Australia	United States
General Structure	Realtors are included and treated as reporting entities under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). They are required to file suspicious transaction reports and conduct customer due diligence from the start.	Under the Money Laundering Regulations of UK, estate agents and conveyancers are under AML supervision since 2004. Enhanced and expanded with later obligations to include beneficial ownership checks and sanctions compliance.	Since 2015, under the 4th Anti-Money Laundering Directive (AMLD4), real estate professionals are explicitly required to apply CDD and beneficial ownership checks. AMLD5 expanded transparency through registers of beneficial owners of properties.	As of July 1, 2026, Tranche 2 reforms of the AML/CTF Act 2006 brought AML obligations to real estate agents, developers, and conveyancers. Obligations include registration with AUSTRAC, CDD, EDD for PEPs, offshore buyers, record-keeping, and suspicious transaction reporting.	Withdrawal of the RRE Rule in 2026 left US real estate AML oversight stuck in stopgap mode, still reliant on temporary GTOs that are limited in scope, not universally applied like other jurisdictions.
Implementation Year	2001	2004	2015	2026	

US GAP YEARS

While GTOs that FinCEN introduced address the required AML obligations, this space made clear that from 2001 to 2016, the US left residential real estate outside of AML oversight compared to other jurisdictions that already implemented permanent laws.

The Cast of Compliance: Who Plays What Role?

At present, FinCEN's GTOs only provide compliance of certain title insurers in select markets. The RRE Rule was intended to institutionalize and expand the obligations nationwide shifting the responsibility to a broader fashion.

Title insurers are the sole compliance gatekeepers under GTOs. They are required to collect and report beneficial ownership information for certain non-financed residential real estate purchases made by legal entities.

Stepping into the compliance stage, the following is how each role is distinct in every US real estate transaction and how the RRE Rule sought to transform the transaction into a more coordinated activity in preventing illicit finance.

Participant	Obligations under RRE Rule	Expectations
Buyer	Must disclose beneficial ownership when purchasing without financing.	Avoid structuring through shell companies to conceal identity.
Seller	Must cooperate with reporting requirements when counterparties are entities/trusts.	Avoid misrepresentation of beneficial ownership or source of funds.
Broker	Not a direct filer, but expected to support compliance workflows.	Indirectly impacted; may need to assist title/settlement agents.
Escrow	May be designated as responsible filer, if handling closing.	Must implement reporting workflows and data collection.
Mortgage Lender	Not involved in all-cash deals. Already covered under BSA for financed transactions.	Minimal impact under RRE Rule.
Appraiser	No direct RRE obligations.	Avoid inflated valuations that could mask illicit finance.
Counsel	May be designated filer in certain transactions or deals.	Must ensure beneficial ownership reporting is accurate and timely.

RRE Rule Withdrawal Leaves US Stuck with Limited Purpose GTOs

As the USA PATRIOT Act approaches its 25th anniversary, GTOs stand as evidence of its enduring influence. They represent the US' effort to attempt to close a loophole that allowed billions of dollars in illicit funds to flow unregulated into US residential real property markets. While the GTOs embody the spirit of the USA PATRIOT Act, extending transparency to a sector that had long avoided oversight, they are limited in scope and duration and lack the full force and effect of a dedicated law to close the loophole, universally.

Features	Geographic Targeting Orders	Residential Real Estate Rule
Origin	Introduced by FinCEN in 2016 as a temporary workaround to PATRIOT Act loophole.	Withdrawal of the RRE Rule in 2026 left U.S. real estate AML oversight stuck in stopgap mode, still reliant on temporary GTOs.
Legal Basis	Issued under FinCEN's authority to impose temporary reporting orders.	Codified regulation under the BSA.
Duration	Temporary, renewed every 180 days (at least 19 renewals by 2025).	Permanent nationwide regulation.
Scope	Select US counties.	Nationwide coverage of all US residential real estate transactions.
Transactions Covered	All-cash purchases by legal entities.	All non-financed residential real estate transactions.
Thresholds	$300,000 nationwide; $50,000 in Baltimore.	Expected to mirror GTO thresholds, with flexibility for risk-based adjustments.
Reporting Requirement	Beneficial ownership disclosure: natural persons with ≥25% equity in entity.	Beneficial ownership reporting standardized across the sector, integrated into FinCEN's database.

The RRE Rule identified that FinCEN believed that money laundering through real estate is a nationwide problem and limited scope GTOs were intended to be a temporary information collection measure.

Unlike GTOs, which applied only to certain title insurers in select counties, the RRE Rule sought to extend obligations across the real estate sector, ensuring that brokers, agents, and other professionals participated in AML recordkeeping and SAR reporting requirements to bring universal coverage in a similar manner as banks, broker dealers, and MSBs, etc.

25 years later, with the withdrawal of the RRE Rule in March 2026, the US continues to plug a gap in the USA PATRIOT Act with limited scope-based GTOs.

StratisAdvisory

RISK | STRATEGY | CYBER COMPLIANCE MANAGEMENT

LAUNCH | SCALE | OPTIMIZE

Stratis Advisory | 1.415.352.1060 | www.stratisadvisory.com | info@stratisadvisory.com