AML and Property Risk: Why Source of Funds Checks Still Matter

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Source of funds checks are routine in property transactions, but they rarely feel routine to the buyer. The request may arrive after the mortgage has been agreed, the survey arranged, and money already spent. What sounds like a standard compliance question to the firm can feel like a belated expression of suspicion to the customer.

The difficulty is not simply that several businesses may ask about the same deposit. They may need similar evidence for different reasons, at different stages, without explaining why documents already supplied elsewhere cannot be relied upon. A buyer may provide the broker with bank statements and a gift letter, only to be asked by the estate agent for similar documents, by the solicitor for further evidence, and by the lender for confirmation.

Property purchases can be funded from savings, family gifts, inheritance, business income, sale proceeds or money held overseas. Funds may also have moved through several accounts before reaching the account used for completion. There is often an ordinary explanation, but the mere fact that the money exists does not establish its source.

The Money Laundering Regulations 2017, as amended, require businesses within scope to carry out customer due diligence and apply a risk-based approach. The purpose is not merely to confirm that the buyer has the money. It is to understand the customer and the transaction, scrutinise the source of funds where necessary, and investigate anything that does not align with what the firm knows about the customer or the transaction. [1]

The same information, but not always the same duty

Solicitors undertaking conveyancing, estate agency businesses and many lenders are subject to the Money Laundering Regulations, although different bodies supervise them. Their responsibilities cannot simply be passed around the transaction. Formal reliance on another regulated business is possible in limited circumstances, but the firm relying on the checks remains liable if the requirements are not met. [1,3]

Mortgage brokers occupy a different position. The Financial Conduct Authority states that mortgage brokers are not bound by its specific anti-money-laundering rules or by the Money Laundering Regulations. They must still have systems and controls to prevent financial crime and remain subject to the Proceeds of Crime Act 2002. A broker may also ask about a deposit because the lender needs the information, because it affects the mortgage application or because an unexplained contribution raises a fraud concern. [2]

Estate agents have customer due diligence, record-keeping and suspicious activity reporting responsibilities under HMRC supervision. Solicitors must make their own enquiries before allowing money to pass through a client account or proceed with a transaction. To the buyer, it may look like the same question being asked repeatedly. In practice, one firm cannot merely assume that another has completed the checks it needs. [1,3]

Gifted deposits

Gifted deposits show why judgement matters, because the label itself tells a firm very little. A parent may regard the money as ordinary family support, and the buyer is likely to see it in the same way. The firm still needs to establish whether it is genuinely a gift, whether repayment is expected, whether the donor will have an interest in the property and where the donor's contribution came from. [3,4]

The answers may reveal an issue that has little to do with money laundering. A gift that is really a loan may affect affordability. A donor who expects control over the buyer or the property may create difficulties later. A different concern arises where the donor appears vulnerable, under pressure or unable to explain the arrangement in their own words.

The donor may find the questions particularly intrusive because they are not buying the property and may not be a customer of the business asking for the documents. That does not make the enquiry unnecessary, but it makes a clear explanation more important. The firm should be able to say what it is trying to establish, rather than sending a standard list of documents without context.

The paper trail must tell the same story

The customer's explanation is only the starting point. Depending on the circumstances, the firm may need bank statements showing savings building over time, confirmation of sale proceeds or an inheritance, gift letters, payslips, business accounts or records of transfers between accounts. Regulation 28(11) requires ongoing monitoring and scrutiny of transactions, including the source of funds where necessary, so that they remain consistent with what the firm knows about the customer, the customer's business and risk profile. [1]

Collecting documents is not the end of the exercise. They need to be read, compared with the explanation and considered alongside the rest of the transaction. A statement showing that a balance exists does not explain how the money was accumulated. A gift letter does not resolve a transfer that appears to have come from somebody else.

The Solicitors Regulation Authority found persistent weaknesses in its review of source of funds and source of wealth compliance. Across the 5,873 files it reviewed in 2024/25, 11 per cent lacked source of funds checks and 18 per cent showed inadequate scrutiny. In 8 per cent of cases, the source of funds recorded in the ledger was not supported by the evidence collected. [4]

Those figures expose the difference between obtaining paperwork and understanding it. A customer may say, 'It's my savings,' while the statements show a recent lump sum, transfers from another person or money moving through several accounts. There may be nothing suspicious about any of it, but the firm still needs to follow the trail and record why the explanation is credible.

Source of funds is not source of wealth

Source of funds and source of wealth are often mentioned in the same breath, but they are not the same thing. Source of funds refers to the money used for this particular purchase and where it came from. Source of wealth takes a wider view of how the customer built up their money and assets over time. [4]

The distinction matters because a firm should not turn every ordinary property purchase into an investigation of the customer's entire financial life. Source of wealth enquiries form part of enhanced due diligence in higher-risk circumstances and may also be needed where the stated source of funds does not make sense without a wider explanation. The extent of the enquiry should remain proportionate to the customer, the matter and the risks identified. [1,4]

Earlier questions are easier to answer

Initial enquiries may begin early, but further evidence can be required if the funding changes, new information emerges or the original explanation leaves gaps. By then, the buyer may have paid for searches, arranged a survey, given notice on a rented property or told family that the move is going ahead. The question has not necessarily become more serious, but it carries more weight once the buyer feels committed to the purchase.

Much of that frustration can be reduced by explaining the process at the start. Customers should know what documents are likely to be required, why a gifted deposit or overseas funds may lead to further enquiries and why moving money between accounts can make the trail harder to follow. They should also be told that a later request does not necessarily mean the firm suspects them of wrongdoing.

Changes in funding should be raised as soon as possible. A buyer may not realise that replacing part of a mortgage with family money, receiving a larger gift than expected or transferring the deposit through a new account changes the information on which earlier checks were based. Waiting until exchange or completion leaves less time to resolve a perfectly legitimate change.

The Financial Ombudsman Service decision DRN-4010142 shows how costly a late or inconsistent explanation can become. Mr and Mrs G had a £331,500 mortgage offer for a £500,000 purchase. On 25 June 2021, their solicitor sent Virgin Money a gifted deposit form stating that they would receive £45,000 towards the purchase. The couple maintained that the money was intended for stamp duty and home improvements, but the form did not say that. Virgin Money treated the gift as a significant change and issued a revised offer on 1 July, one day after the stamp duty deadline. Their stamp duty bill rose from £14,000 to £27,500. [5]

The Ombudsman did not uphold their complaint against Virgin Money. The lender had not been informed of the gift before issuing its original offer and acted reasonably quickly upon receiving the new information. The decision did not determine whether anyone else was responsible. What it does show is how easily late or inconsistent information can leave the buyer carrying the cost. [5]

Staff need an explanation too

The person requesting a document is not always the person who decided it was needed. A broker, estate agent, conveyancing assistant or case handler may understand the general purpose of the check without knowing which gap a particular statement is intended to fill. That becomes obvious when a frustrated customer asks why information already provided must be repeated.

A reference to ‘compliance’ is not an explanation. Staff need enough information to tell the customer what the request is intended to establish and to recognise when the question must be passed to somebody with greater responsibility. Clearer reasoning also makes it less likely that staff will request documents out of habit rather than because the circumstances justify it.

Why the checks still matter

The SRA’s sectoral risk assessment, updated on 4 September 2026, continues to identify conveyancing as presenting the greatest inherent money-laundering risk to the legal sector. It points to high transaction values, the movement of substantial funds, pressure to complete and the opportunity to turn criminal proceeds into an apparently legitimate asset. It also identifies an understanding of source of funds and source of wealth as a key control across several high-risk areas.[6]

The framework itself also changes. Most provisions of the Money Laundering and Terrorist Financing (Amendment) Regulations 2026 came into force on 30 June 2026, changing monetary thresholds and other parts of the 2017 regime. HMRC published revised guidance for the businesses it supervises, including estate agency businesses, in July. Some cryptoasset provisions have later commencement dates in 2027.[7,8]

None of those changes removes the need to understand the source of funds where the risk and circumstances require it. They do show why a firm cannot assume that an established process remains consistent with current rules and guidance.

That does not justify treating every buyer as high risk or demanding every available financial record. A risk-based system should produce more scrutiny where the facts warrant it and fewer unnecessary requests where they do not. The firm should be able to show why its questions were proportionate, what the documents demonstrated and how the final decision was reached.

Source of funds checks will remain intrusive because they require people to disclose information they would not ordinarily share. The practical test is whether the enquiry is necessary, whether the evidence is considered and whether the customer is told what is happening before delay and mistrust take over. A check that can be justified should also be explainable.

Sources

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