

MORTGAGE FRAUD FACT SHEET

A. Background & Definition

Mortgage Fraud is a growing concern, particularly in larger Canadian cities. Senior citizens, often more vulnerable and trustworthy, are at risk to unscrupulous fraudsters.

Mortgage fraud is "any act that convinces a lender to grant a mortgage that would have been rejected if the truth were known". This is as simple as providing a letter of employment listing an inflated salary, or a note from a relative confirming a gift towards the down payment on a purchase, when the money is actually a loan. This is also known as "shelter fraud." It happens when borrowers are trying to buy a home for which they don't qualify.

Criminals also can use identity theft to pose as the owner of a property at the provincial land-title office. This enables them to take out a mortgage on the home or sell it to an innocent purchaser and make off with the proceeds.

B. Classifications of Mortgage Fraud

(More than one classification may be involved)

1. Property

- Misrepresentation of property characteristics or purpose - forged or altered listing, commercial represented as residential, multiple represented as fewer units or single
- Intent to reside - rental represented as owner occupied
- Conditions not released at closing

2. Employment

- Forged or altered employment letter or reference
- Forged or altered pay stub, T4, Notice of Assessment
- Inflated income or tenure
- Misrepresentation regarding employment for self

3. Identification

- Providing forged or altered identification
- Use of 'Straw' borrower or 'True Name Fraud'
- Nonexistent individual or alteration of personal information to avoid credit bureau purchase incentive
- Full or partial down payment paid directly to vendor

4. Title

- Fraudulent title transfer, fraudulent mortgage discharge
- Property not in the name of the seller
- Fraudulent transactions often share common elements

C. Most Common Types of Fraud

1. Identity Fraud

This occurs after a consumer purchases a home. A fraudster takes down the street number, and using a diskette that provides access to the electronic registration system, finds who is listed as holding the title to the property, along with the details of any mortgage arrangements. The fraudster transfers the title, and pays the registration fee and the applicable land transfer tax, and now has title to someone else's home.

2. Value Fraud

In these types of schemes, the true value of the property is artificially inflated to deceive the mortgage lender.

D. Why Does It Occur?

Published reports list a number of factors that contribute to the emergence of this issue:

- The anonymization or depersonalization of the process for buying a house. This includes access to lenders without the requirement of meeting anyone in person or establishing business relationship, the electronic transfer of funds and title documents, and appraisals of properties based on abstract computer models.
- Easier access to vast amounts of information about properties and homeowners since 1999, when Ontario introduced an electronic land registry system.

E. The Consequences of Fraud

Everyone loses in these types of frauds. Lenders and insurers bear the brunt of the financial losses, but the losses of mortgage insurers and title insurers may typically be recovered from consumers in the form of increased mortgage insurance premiums. Consumers also lose when they have to spend time, effort, and legal fees to recover lost title to their homes. The non-monetary impact of fraud reflects negatively on everyone involved in the real estate industry.

F. Protection Against Mortgage Fraud

- One protection against fraud is title insurance, which can be purchased for about \$250. The one-time fee grants full coverage so long as you own your house.
- Retain a lawyer early in the process.
- Remember that a lawyer is there to protect the consumer's interest and provide good advice on the transaction and perform due diligence.
- Be wary of advisors who make recommendations. They may have a vested interest in the transaction.
- Purchasing a home will be the largest expenditure most people will ever make. The relatively modest cost for legal services is money well spent.

G. Tips to Home Buyers and Owners

- Be a smart consumer! Take steps to protect yourself and your home.
- Never turn over large sums of cash to anyone.
- Never give anyone your bank account or credit card numbers.
- Beware of 'chance of a lifetime' investments in land, new companies.
- Purchase Title Insurance.
- Deal with a reputable lending institute for your mortgage.
- Stay away from online mortgage searches.
- Take a secured line of credit on your house.
- Use a trustworthy lawyer.

For more information, please refer to the following:

- Mortgage Fraud Study Paper, prepared by the RTO/ERO Political Action Committee
- PhoneBusters - The Canadian Anti-fraud Call Centre
Le centre d'appel antifraude du Canada
The Fraud Squad of the Ontario Provincial Police <http://www.phonebusters.com>
Phone: (888) 495-8501 - Toll Free in North America (Canada/United States)
Phone: (705) 495-8501 - Overseas and Local
Toll-Free Fax: (888) 654) 9426 - from North America
- Law Society of Upper Canada <http://www.lsuc.on.ca>
<http://www.lsuc.on.ca/public/a/complaints/> Toll-Free: (800) 668-7380
Phone: (416) 947-3300
Fax: (416) 947-5263
Complaint Line - Toll-Free: (800) 268-7568
Complaint Line - Phone: (416) 947-3310
- Canadian Real Estate Association <http://www.crea.ca/> Phone: (613) 237-7111
Fax: (613) 234-2567
- Appraisal Institute of Canada <http://www.aicanada.ca> Phone: (613) 234-6533
Fax: (613) 234-7197
- Canadian Institute of Mortgage Brokers and Lenders <http://www.cimbl.ca/> Toll-Free: (888) 442-4625
Phone: (416) 385-2333
Toll-Free Fax: (888) 579-2840
- Office of Consumer Affairs - Canadian Federal Government
Bureau de la consommation <http://www.consumer.ic.gc.ca>
<http://www.consumerinformation.ca> Toll-Free: (800) 328-6189 - Within Canada
Phone: (613) 946-2576
Phone: (613) 954-5031
Fax: (613) 952-6927
- Ministry of the Attorney General - Ontario
<http://www.attorneygeneral.jus.gov.on.ca/> Phone: (416) 326-2220
Fax: (416) 326-4007