



# MORTGAGE FRAUD

## How the scheme works

1. Typically, the schemers buy older single-family homes or work on the conversion of an apartment building into condominiums.
2. They obtain an appraisal for more than the true market value of the property, sometimes using phoney offers to purchase on similar units as evidence of higher value.
3. They then have an unconnected person buy the property at the higher value, often with a mortgage for 95% of the inflated appraisal. In other cases, the purchaser is a numbered company controlled by the schemer, who might make a quick 30 or 40% profit.
4. The unconnected person, called the straw man, is lured by the promise of easy money. Sometimes they can be paid \$2,000 to look the other way and hold the title for what is promised to be a short time.
5. The straw man supplies personal information about job, salary, driver's license and other documentation. The information is used to make false offers to purchase. Some straw men become victims of the fraud when they find out their names were forged on financial papers taking out a mortgage in their name.
6. The schemer may or may not make mortgage payments for a while, but eventually it falls into default with the name of the straw man or the numbered company on the title.
7. Sometimes the property is sold to someone else for a dollar. That new person cannot make payments and the bank forecloses.

## Who loses in the end?

Default judgements are filed against straw men, who may have to pay the thousands of dollars difference between the inflated value of the property and its actual value, plus legal costs.

CMHC (Canada Mortgage and Housing Corp) loses money when it reimburses banks on insured mortgages. It has to manage the property until it is sold.

The lenders lose money when they foreclose on properties with uninsured mortgages.

Appraisers, realtors and lawyers lose public trust.

## **Avoiding the sting**

Beware of people offering the chance to make a quick buck, especially if they promise to handle all the details.

Hire your own lawyer whenever you purchase property.

If an appraisal seems out of whack, get another one done.

If you are approached to hold title to a property for a short time, get everything in writing. Better still, say no and call the Police.

*(Reprinted courtesy of the Edmonton Journal)*

## **Other mortgage frauds**

There are a number of individuals and companies offering assistance to homeowners behind on their mortgage payments. If you are contacted by anyone offering to help save your home, do not sign anything until you seek legal advice. Otherwise, you may lose your home.

## **Home equity and repair scams**

Homeowners - don't become a victim of a home equity scam! As a homeowner, one of the most valuable assets you have is the equity in your home. Your equity is the money you have paid over time towards the cost of your home. Con artists may try different schemes to get you to borrow against the value of your home or mortgage your equity at outrageous interest rates. As a result, you may be unable to meet the payments and could wind up losing your home.

## Heads Up!

- 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 number or credit card numbers.
- Beware of "chance of a lifetime" investments in land, new companies, inventions, pyramid franchises, vending machines, or work-at-home schemes.
- Always ask to see the investment opportunity and check the company's reputation before you agree to participate.
- Don't pay money for work-at-home opportunities.
- If it seems too good to be true, it probably is!

Name

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Address

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### Section 4.5 Quiz

1. What is Mortgage Fraud?

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2. Give other examples of the 4Ds that could prevent this fraud

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3. How is your behaviour going to change now that you have this new information?

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