



MORTGAGE FRAUD

Deception for Profit

What is Mortgage Fraud?

Mortgage fraud involves any material misstatement by a borrower in the course of applying for a mortgage loan which is intended to mislead the lender, or a material misstatement by a lender or purported lender which is intended to deceive a borrower. The purpose of the fraud may be to acquire real estate or to make a profit.

Six Common Mortgage Fraud Schemes

#1 Mortgage Qualification using False Documents or Information

When borrowers qualify or attempt to qualify for a mortgage using false documents or information, they have engaged in the criminal act of mortgage fraud for the purpose of acquiring housing. False documents can include employment letters, bank statements, false statements about assets, income tax assessments, municipal business licenses, etc... Lenders rely on these documents in making a determination about whether to grant a mortgage to a borrower.

#2 False Down - Payments

This is when a borrower misleads the lender by making it appear that they have a down payment or a larger down payment than they really have. A borrower may do this by entering into a purchase contract with an inflated purchase price. The contract may include a subsequent page that states the vendor

reimburse part of the purchase price back to the purchaser. When purchasers fail to provide the entire purchase contract to lenders, & mislead lenders as to the real price of the property, they have engaged in mortgage fraud by falsely making it appear a down payment is made.

3 Falsely Inflating Property Values

Fraud for profit occurs with a property flipping scheme, which involves back- to-back sales of a single property. A property flipping fraudster will buy a property from a legitimate vendor, and resell it multiple times to "straw buyers" at an inflated price, each time obtaining mortgage financing. At some point the mortgage value will seriously exceed the value of the property, and the fraudster will disappear with the mortgage proceeds, leaving the lender to foreclose on the property. The lender will recover only a fraction of the mortgage amount. Property flipping schemes result in over inflated properties and higher lending costs to cover the losses from fraud.

4 Foreclosure Rescue

Foreclosure rescue schemes prey on borrowers who are over extended with their mortgage and face imminent foreclosure. A foreclosure rescuer will agree to bail out a distressed homeowner by providing a loan to pay off his or her mortgage arrears and permit the home owner to continue to live in his or her house. However, a vulnerable home owner may not have read all of the fine print in the loan documents, and he or she may discover that they have signed over the title of their property to the foreclosure rescuer or entered into another mortgage at exorbitant interest rates or costs and then face another foreclosure by the rescuer. The end result is that the home owner loses his or her home.



5 Identity Theft / Impersonation

A homeowner's identity can be fraudulently used by a fraudster who applies for a mortgage pretending to be the legitimate home owner. If there is already a mortgage on the property, the fraudster may file a false discharge to clear title, and then apply for a new mortgage. Often the fraudster will apply for a mortgage which is only half of the property value in order to easily qualify with the lender. The fraudster then disappears with the mortgage proceeds leaving the lender to foreclose on the legitimate home owner.

6 Related Frauds – Advanced Fee Schemes

A common and well known type of fraud involves fraudsters who purport to be mortgage or personal loan lenders. The fraudsters may have a website or print advertisements with fictitious contact information and names. You contact the fraudsters through an e-mail address or a cell phone number, and begin a dialogue wherein they promise to lend money in exchange for you paying an advance fee. You pay the fee to a person through an electronic wire service and not to a company, and the loan never materializes. In addition, the fraudster may use the financial information which you disclosed on your loan application to steal your identity or sell the information to a third party.

How to Protect Yourself from Mortgage Fraud

- **Registered Professionals** - when dealing with a mortgage broker in BC, make sure that he or she is currently registered with FICOM. Likewise, when dealing with a realtor in BC, check the license with the Real Estate Council.
- **Know the Visitors** - if someone visits you in your home, find out the name of the individual's employer, business address & phone number.
- **Check with the BBB** - if you are in doubt about whether a company is legitimate, check with the Better Business Bureau.
- **Advance Fees** - know that paying advance fees is illegal, and never pay a fee to a lender in advance of the transaction, unless it is for something specific, like an appraisal.
- **Shred if Possible** - be careful with discarding your financial and other sensitive information – shred it if possible.
- **Protect Your SIN** - never give anyone your social insurance number.
- **Review Key Documents** - review your credit report, along with credit card & bank statements regularly to make sure there are no inconsistencies. Always review mortgage loan documentation. Check this very carefully, read the fine print. Do not sign any document if you are not sure of what you are signing.
- **Legal Advice** - get independent legal advice before signing your mortgage – check that your lawyer is truly independent from the lender.

FOR MORE INFORMATION PLEASE VISIT THESE RESOURCES:

- **FICOM** 604 – 953 – 5301 www.fic.gov.bc.ca
- **Law Society of BC** www.lawsociety.bc.org
- **Mortgage Brokers Association of British Columbia** www.mba.bc.ca