



Avoiding Mortgage Fraud: What Consumers Need to Know

Mortgage Fraud Red Flags

Do you know the signs of mortgage fraud? Do you know how to make sure you don't become involved in a fraudulent transaction? The Real Estate Council of Alberta has prepared a list of mortgage fraud red flags for consumers to help them protect themselves.

Red flags may indicate there's a fraudulent transaction taking place; they don't guarantee a fraud but should raise suspicion. Watch out if:

- someone offers you money to use your name and credit information to obtain a mortgage.
- you are encouraged to include false information on a loan application.
- you are asked to leave signature lines or other important areas on a loan application blank.

- the loan amount on the mortgage is significantly higher than the value of the property.
- the mortgage has been refinanced several times and in each instance, the amount of the mortgage has increased.
- a seller or investment adviser discourages you from seeing or inspecting the property you are buying

If it sounds too good to be true, it probably is. Mortgage fraud is not a get-rich-quick scheme — it's illegal. Getting involved in mortgage fraud can damage your credit rating, your finances, and your current and future employment prospects.

Visit www.reca.ca for more red flags and information.

Types of Mortgage Fraud

Mortgage fraud isn't a single situation with a single type of transaction. Mortgage

fraud occurs in a variety of ways – for a variety of purposes.

Consumers need to know about:

Foreclosure Fraud:

This type of fraud often targets vulnerable, low-income individuals whose homes are in foreclosure, or who are at risk of defaulting on their mortgage. It happens when:

- a mortgage fraudster approaches a home owner, who is in financial trouble, with a debt-consolidation scheme that typically involves the owner paying upfront fees and transferring the home's title to the fraudster
- the home owner receives cash from the fraudster to address immediate bills and remains in the home paying "rent" or "consolidated debt payments" to the fraudster

- the fraudster pockets all of the owner's payments and ignores bills and taxes, which leads to debt-collection procedures against the owner
- the fraudster may re-mortgage or sell the property to an accomplice, which leaves the owner without the property title, homeless and still in debt

Fraud for Profit:

Fraud for profit typically involves a number of individuals who work together to artificially inflate the price of a home or get mortgage funds for non-existent homes.

- a straw buyer is a person who makes a purchase on behalf of another person.
- the straw buyer may, for some of the profit, lend his or her identity and good credit to the fraud. If you give your identity or use your credit rating in this way, you are the straw buyer
- the real buyer, who is using the straw buyer's identity and credit, promises to make all



the payments and pay the straw buyer for the use of his or her credit rating – but the real buyer doesn't make the payments

It's not unusual in fraud for profit for the fraudsters to pocket the cash, stop making the payments, and the straw buyer is left with the property and no means of paying the mortgage, which is often an artificially inflated amount. Straw buyers can be held legally responsible for the mortgage debt.

Fraud for Housing:

It is mortgage fraud if you provide false or misleading information on a mortgage application so that you'll qualify for a mortgage you

wouldn't otherwise qualify for. It's also fraudulent if you say you're going to be living in the property, in order to get the mortgage loan, but you have no intention of living in the home.

Fraud for Title:

This is what happens when someone steals your identify, and uses fake documents and identification to "steal" or change the title on a home you own. The mortgage fraudster uses these documents to apply for and take out a mortgage on the home you own. The bank lends the money to the fraudster based on the stolen or fake documents, the fraudster takes the money, and then you're left with the debt because the mortgage was in your name.

The Real Estate Council of Alberta is the independent governing authority that sets, regulates and enforces standards for real estate brokerage, mortgage brokerage, property management and real estate appraisal professionals. For more information about RECA and the work we do to protect consumers, please visit www.reca.ca

