

Mortgage Fraud Red Flags

Red flags indicate the possibility of a concern.

The following red flags are indicators often present in fraudulent transactions. The existence of red flags in a transaction does not guarantee a fraud; however, should arouse suspicion.

Many red flags can be reliable indicators of a suspicious transaction.

Red flags should be considered seriously if more than two or three appear in a transaction. For example, you are involved in a transaction where the buyer is a numbered company, the deposit is to be held by the buyer's lawyer, high ratio financing is required and the contract is unconditional. Considered individually, these factors appear innocent. However, when found in correlation they seem suspicious and this transaction may require further scrutiny to determine if it legitimate.

Red Flags

Red flags associated with the true identity of the parties to the trade:

- client will not provide photo ID, when requested
- transaction involves a relative of the associate
- existence of other offers, subject to financing, that collapsed
- parties "undisclosed," "care of listing brokerage," or "nominee"
- land title records do not match with seller information
- buyer is a numbered company seeking a high ratio mortgage
- corporate search shows the associate or the associate's spouse or family member a director
- buyers or sellers are not personally or professionally related; e.g. "R. Smith and Michael Jones"
- buyers' or sellers' names are only partially indicated; e.g. last name appears without a first name ("Smith"), or the first name is indicated by only an initial ("R. Smith")
- information about buyer's income doesn't match industry standards
- buyer purchases property far from place of employment for no apparent reason
- buyer purchases investment property, yet does not own a principal residence
- buyer is purchasing many properties with high ratio mortgages, using different names or variations of his name
- parties have no formal office; communication is by cell phone, email and fax; meetings are scheduled at restaurants
- source of deposit cheques is other than buyer
- deposit is provided in cash or by money order
- buyer or seller is represented by a person acting on a power of attorney

Red flags associated with the property value:

- no CMA or appraisal available, or if available, does not seem applicable
- VTB and/or other forms of equity arrangements

- sweat equity arrangements as opposed to a reduced price
- vendor take back or sweat equity arrangements not referenced in the purchase contract
- chattels are used as deposit or as partial payment
- renovation value included in the sale price
- property has illegal/nonconforming suites
- property is a combination of residential and commercial components that are not reflected in the financing arrangements
- commercial property has residential type financing or loan-to-values ratios
- listed property is owned by a corporation but has mortgage in excess of 80% of property value
- purchase price is same as, or higher than list price
- property list price or purchase price of property is unusual for the neighbourhood
- appraisals were provided by the parties to the trade

Red flags indicating unusual transactions:

- quick succession of trades on one property
- seller in the "business" of selling real estate and buys and sells many properties
- use of "Seller's Rights Reserved" on listings
- uncommon commission arrangements, unusual adjustment to commissions, flat fees, low fees
- listing associate's instructions refer inquiries to unlicensed person for showings or information
- MLS information is unusual or inconsistent with the transaction; e.g. listing is removed from MLS prior to sale, sale is not reported, listing reappears at higher price, listing associate on MLS is different from the purchase contract, MLS history doesn't support pricing, etc.
- one lawyer represents both parties to the transaction
- condition allowing buyer to show unit to prospective tenants; note: most high ratio mortgages require owner occupancy
- all or many units of building are sold at the same time with coinciding possession dates
- immediate possession dates
- firm transaction with none of the usual conditions; in particular, a transaction requiring high ratio financing, yet is unconditional
- no counter offer
- contract indicates unusual statement; i.e. "this is a private sale"
- names appear to have been added to or deleted from the contract
- not all parties named on the contract have signed it
- purchase contract indicates both parties signed at the same time
- no buyer's or seller's associate information provided for delivery of documents
- schedules or addendums exist but are not indicated in the contract, or, schedules or addendums do not reference the originating contract
- deposits not held at brokerage; particularly applies when brokerage is not even provided with a photocopy of the deposit cheque

Red flags associated with industry member behavior:

- brokerage is in dual agency - either two associates of the brokerage represent each of the parties or more often, one associate represents both
- associate's lifestyle is not consistent with income received through the brokerage
- associate representative section of the contract not filled out
- associate tends to use same lawyer on most transactions
- associate primarily does transactions with only certain other associates
- associate tends always to refer clients to the same mortgage broker
- signatures are witnessed by someone other than the real estate associates
- associate buys and sells his/her own properties regularly
- associate lends down payment to client
- number of listings or sales an associate has posted on the MLS system does not correspond to brokerage records (possible fraudulent broker load situations)
- associate regularly advertises properties as "low down," "assumable," "no down," "no qualifying," "quick possession," etc
- associate holds both real estate and mortgage associate licence

Red flags associated with brokerage operations:

- broker has no fraud prevention or detection policies
- broker does not review transactions
- conveyancing staff not trained to recognize suspicious transactions
- advertisements are not approved prior to publication and/or are not reviewed by broker
- brokerage does not check background of prospective agent employees