

MORTGAGE FRAUD: HOW TO PROTECT YOURSELF WHEN PURCHASING OR REFINANCING A HOME



The promise of “easy money in real estate” can be hard to resist. But consumers who knowingly misrepresent information when buying or refinancing a home could find themselves becoming accomplices to mortgage fraud.

What is Mortgage Fraud?

Mortgage fraud occurs when someone deliberately misrepresents information on a loan application, to obtain mortgage financing that likely would not have been approved if the truth had been known.

There are several different forms of mortgage fraud. One of the most common is when a con artist convinces someone with good credit to act as a “**straw buyer**.”

A straw buyer is someone who agrees to put his or her name on a mortgage application for a home that someone else will be buying. Mortgage applications for straw buyers also often misrepresent other important information as well, such as their income, occupation and the real source of a down payment. In return for their participation, straw buyers may be offered cash or promised high returns when the property is sold.

While the promise of an easy payday may be tempting, consumers should be aware that in most cases, the fraudsters are the ones who walk away with all the profits, while the straw buyer is left “holding the bag” when the mortgage defaults. Consumers who knowingly take part in these frauds will also be responsible for any shortfall when the property is resold, and could even be held criminally responsible for their misrepresentation.

What Can You Do to Protect Yourself?

To protect yourself and your family from becoming victims of, or accomplices to, mortgage fraud, be an informed consumer. This means:

- Never accept money, guarantee a loan or add your name to a mortgage unless you fully intend to purchase the property. If you allow your personal information to be used for a mortgage, even for a brief period, you could be held responsible for the entire debt even after the property is sold.
- Always know who you are doing business with. If you are buying or selling a home, use only licensed Real Estate Agents and other industry professionals. And never sign anything until you know exactly what you are signing.
- Determine the sales history of any property you are thinking about buying, and consider having it inspected and appraised. Ask for a copy of the land title search.
- Find out if anyone other than the seller has a financial interest in the home. If a deposit is required, make sure the funds are held “in trust” by the Vendor’s Realty company or lawyer / notary.
- Get independent legal advice from your own lawyer / notary. Talk to your lawyer / notary about title insurance and other alternative methods of protection.
- Be wary of anyone who approaches you with an offer to make “easy money” in real estate. Remember: if a deal sounds too good to be true, it probably is.

There are also several simple steps you can take to protect yourself from another common form of fraud: **identity theft**. These include:

- Never give out your personal information until you know who you are dealing with and how your information will be used. This includes requests for information in person, by mail, or over the phone or Internet.
- Never reply to e-mails or phone calls that ask for your banking information, credit card details, passwords or other personal or sensitive information, particularly if you did not initiate the exchange.
- Review your mail, bank statements and other financial statements on a regular basis to look for any inconsistencies. If you don’t receive a bill on time, follow up with your creditors or service



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providers.

- Shred or destroy all personal and financial documents before you throw them away.
- Inspect your credit report on a regular basis by contacting Canada's two credit-reporting agencies: **Equifax Canada** at www.equifax.ca and **TransUnion Canada** at www.transunion.ca.

Find Out More

If you suspect that you or someone you know has been the victim of mortgage fraud, contact your local police department immediately.

To find out more about mortgage fraud, [visit](#) the fraud prevention section of the Canadian Association of Accredited Mortgage Professionals (CAAMP) website at <http://mortgageconsumer.org/lookup.php?q=protect-yourself-from-real-estate-fraud&lang=en>.

For more tips, visit CMHC's Homebuying Step by Step Guide at www.cmhc.ca. CMHC is Canada's largest provider of mortgage loan insurance, helping Canadians buy a home with a minimum of five per cent down. Ask your mortgage professional about CMHC.