Real Estate Council Alberta

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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.

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 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.

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.