

MORTGAGE FRAUD RED FLAGS - REAL ESTATE APPRAISAL PROFESSIONALS

Purpose: To help real estate appraisal professionals evaluate whether mortgage fraud is taking place.

This bulletin applies to real estate appraisal professionals

Mortgage fraud is a criminal offence. Participation in mortgage fraud also violates the *Real Estate Act* Rules. Industry professionals who breach the Rules face strong sanctions, including suspension or cancellation of their authorization. Industry professionals must help prevent mortgage fraud by identifying suspicious deals and notifying authorities.

Appraisal agreement issues:

- The person requests that the appraiser complete an appraisal in an unfamiliar market area or outside of the appraiser's stated expertise.
- The person indicates the property value expected.
- The person requesting the appraisal for financing purposes is someone other than a lender
- The person tries to influence the appraiser with the promise of additional work if the current appraisal value(s) meets expectations.
- The person requesting the appraisal approached other appraisers and is not satisfied with their values.
- The person requests that the appraiser keep everything confidential and not contact others involved in the transaction
- The person does not intend to move into the property when a high-ratio mortgage is being sought.
- The person does not provide information requested (leases, expense information, financial statements, etc.) and says the information is lost or with someone who is away (accountant, lawyer, etc.) and cannot be obtained.
- The person is using a financial institution with offices in a different city
- The person provides poorly executed documentation regarding listings, sales, leases, etc. (may be only partially completed)
- The person misrepresents improvements or other information about the property, such as age, rental rates, expenses, etc

- The person needs the appraisal immediately
- The person indicates that the interior cannot be inspected for various reasons (tenant/owner away, illness, etc.) but they can provide the information regarding the makeup and condition of the interior.
- The person will not show the subject unit(s) but rather another unit (usually one that is upgraded), and asks the appraiser to provide an appraisal on a number or all units.
- The person indicates the property (unit) will be renovated, and the appraisal is to be completed as renovated, but is not specific about what renovations will be completed
- The person provides sales information on other units in the same complex or other similar complexes that may or may not have closed
- The person requesting the appraisal gives the appraiser an information package including sizes, comparables, etc.
- The person has no formal office or home address and communication is by cell phone or e-mail, and meetings are at public places.

Other Issues

- The person has purchased the property recently.
- Purchase price is higher than list price.
- The previous sale price of the same property was recent and substantially lower
- The property has changed ownership several times over a short period of time with price increases on each change
- The selling price appears high in comparison to the neighbourhood value range
- In reviewing listings, offers to purchase, etc., the parties are "undisclosed," "Care of Listing Broker," or "nominee"
- The property has illegal/non-conforming suites
- Both parties to the transaction are represented by the same lawyer.
- The listing was cancelled from MLS® prior to the sale (true sale price will be unknown)
- All or many units of a building are sold at the same time with coinciding possession dates
- Listed property is owned by a corporation but has a mortgage in excess of 80% of the property's value
- Immediate possession dates
- Expected due diligence or conditions are missing
- No counter offer (most transactions have some negotiation)

When you identify a suspicious transaction

The *Real Estate Act* Rules requires an appraiser to refuse to provide further services to a person who:

- Instructs the appraiser to prepare an appraisal contingent on the result;
- Attempts to unduly influence the appraiser during the appraisal process to prepare an appraisal report to a predetermined outcome;
- Instructs an appraiser to prepare an appraisal for fraudulent or unlawful purposes.

Contact the lender and tell them why you are suspicious. Report the results of your review to RECA in writing if the persons involved are other industry professionals (real estate associates/brokers, mortgage associates/brokers or appraisers). Contact the local police or RCMP if you suspect fraudulent and/or other illegal behaviour.

The Appraisal Institute of Canada also has mortgage fraud information available for its members and the public. Please visit its website at www.aicanada.ca.

Related information

Legislation

- *Real Estate Act* Rules – sections 41(a), s.42(a)(b), 79

Information bulletins

- Mortgage Fraud Red Flags
- Mortgage Fraud Red Flags – Mortgage Brokerage Professionals
- Mortgage Fraud Red Flags – Real Estate Professionals