

May 2004 REIN Workshop

How to Spot and Avoid Mortgage Fraud.

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**How To Invest In
Real Estate Legitimately,
Create Wealth &
Sleep at Night!**

None of them Took Shortcuts History Lesson Part 1

Never Forget History... Learn From It!

Real Life...

**Real Wealth is Not Created
(and Kept) with 'Get Rich
Quick' Schemes!**

Instant Society Demands Instant Results!

**"If it doesn't happen
soon... it's not worth it!"
"Where's The Shortcut!"**

Your Integrity is Your Foundation!

**This Journey provides
you the opportunity to
make the choices**

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**Never Forget
History...
Even in the
Real Estate
industry...
nothing is new!**

**Bankers, Veteran
Realtors and
other
professionals
have seen it all
before...**

**Fraud & Gray
Area
Transactions...
Avoid them At
ALL Costs**

**Developed via
discussions with
RECA investigators,
CIMBL, Real Estate
Boards,
government
services & major
lenders**

Fraud Merchants Focus On...

- **Hot Markets**
- **Beginning Investors**
- **Emotions (fear & greed)**
- **Short Time Lines**



**Fraud Merchants can manifest
through...**

- **Overly Aggressive**
- **Over Justification**
- **Secretive System**
- **Putting others down to
make them look good**

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You MUST in ALL Cases...

- Remove Emotions (especially greed)
- Own Due Diligence
 - Values OK?
 - Rents Realistic
- Fill In Your OWN Forms!



You MUST in ALL Cases...

- Get Independent Legal & Accounting Advice!

Critical!!!



**Keep Your Eyes &
Intuition Open!
How to Spot -
and run away
from, Potential
Fraud**

Real Life Examples

Qualification - The “Straw Buyer”

- You're offered \$5,000 if you qualify for a low-down mortgage
- Value sometimes inflated
- Sometimes you state that you're moving in...



Qualification - The “Straw Buyer”

- **Option 'a'**
 - We'll renovate the property and then sell huge profit (often stated way above real market)
 - new buyer will assume your mortgage
- **Option 'b'**
 - Property is soon 'bought' from you. (agreement for sale) or mortgage is assumed by 'fraud merchant' or "we'll make the payments"
 - payments aren't made - you are on the hook



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Example

Thanks To Jon Harding Calgary Sun

- Realtor lists home for \$180,000 May 1st
- 'Fraud Merchant' (FM) buys home May 2nd for \$175,000
- "Straw Buyer" purchases from 'FM' for \$210,000 - arranges a \$200,000 (95%) mortgage and get a 'fee'
- Closing July 1st



Example

Thanks To Jon Harding Calgary Sun

- July 1st - Bank provides \$200,000 (95%) mortgage money to lawyer
- Lawyer pays the \$175,000 original vendor
- \$25,000 goes to 'Fraud Merchant'
- \$5,000 fee goes to 'Straw Buyer'
- then...



Example

Thanks To Jon Harding Calgary Sun

- August 1st
- Straw buyer sells/transfers the property back to 'Fraud Merchant' for \$1
- New 'home buyer' or investor found, can get in for no or little money down and assumes over valued mortgage



Example

Thanks To Jon Harding Calgary Sun

- Straw Buyer on the hook (even if assumed) because of fraud
- New buyer on the hook for part of the assumed mortgage
- New buyer has a house worth less than mortgage
- "Fraud Merchant" walks away with \$20,000 - with no risk (no name!)



Fired Member Example

- Promised the moon -over sold properties
- Preyed on the 'vulnerable'
- Promised ARV Values will be \$140,000 (real life \$115,000)

Fired Member Example

- Arranged new mortgages (investors signed) their name didn't appear anywhere
- Manipulated comparables & appraisal,
- Promised to make the payments

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Fired Member Example

- Registered 2nd Mortgages on 'partners' residences for difference (often no notification)
- Stopped making payments on investment property - always a good story or excuse
- All of a sudden disappeared as soon as word got out!

Ignorance is not a Defense!

**Do you OWN Homework
AND Check your
Instinct!**

What To Watch For...

**If YES,
Check Deeper Behind
The Curtain!**

Check Your Integrity - What To Watch For

- You're offered a fee to qualify for a mortgage (not a true 50-50 Joint Venture)
- **You are encouraged to include false information on a loan application**



Check Your Integrity - What To Watch For

- You are asked to sign an affidavit stating you're moving in, when you are really not!
(justification = a weekend is moving in!)
- **'Partner' doesn't want their info on any paperwork**



Check Your Integrity - What To Watch For

- Property has an inconsistent value for the neighbourhood (do your homework!)
- **Property shows prior transfers within a couple of months (pull title!)**



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Check Your Integrity - What To Watch For

- You can assume for no money down
- **You are encouraged NOT to get independent legal advise**
- Information for your independent due diligence is hard to get



Check Your Integrity - What To Watch For

- Realtor, inspector, appraiser or mortgage broker has a financial interest in the transaction
- Title shows value and consideration are completely different



Check Your Integrity - What To Watch For

- Time lines are VERY short - *"You're going to miss out if you don't jump now!"*
- After Repair Values are provided - without true study completed



Check Your Integrity - What To Listen For

- *"Don't tell anyone else about this great deal!"*
- *"I've done this before - don't worry about it!"*
- *"My banker is OK with it"*
- *"Others are doing it - so it's not a problem!"*



Check Your Integrity - What To Listen For

- *"She's an award winner - I guess we can trust them."* (BALONEY!)
- *"He's a senior investor or Member, must be good people!"*



Actions behind the scenes #1 Banks adding extra investigations...

- Verifying assets - pulling title on properties you say you own
- Corporate Searches on businesses & corporations you say you own
- Pulling title at least once per year on properties on which they have mortgages

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Actions behind the scenes #2

- CMHC & Banks have recently hired a whole new investigative crew
- Not investigating just from desks - they're knocking on doors. "Do You Live Here?"
- RECA now has 3 Full time investigators

**If you'd be
embarrassed when
your action shows up
on the front page of
the Edmonton
Journal...
Then DON'T Do It!**

Senior Action Steps

- In Sophisticated Investor Binder:
 - "We will not sign any legal document representing a shift in our primary residence for the purpose of securing financing for real estate acquisitions. Please steer us clear of institutions which market this practice as a means to sliding deals through. We wish to work with institutions operating with a high standard of integrity"
 - Felica Kelso

Real Life...

**Real Wealth is Not Created
(and Kept) with 'Get Rich
Quick' or Shortcuts!**

**Do your OWN
Due Diligence
Check your Instincts,
Get a Second Opinion
AND become amazingly
successful!**

**It's Simple To
Invest In Real
Estate Correctly...
Don't Let Anyone
Tell You Differently!**

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**Never Forget
History...
Robert The Bruce
Ralph Klein
REIN Member**

**Learning From
Success
History Lesson Part 2**

**The Journey of
Personal
Achievement...**
**The 3 Stages of Real &
Meaningful Change**

**The Journey of Personal
Achievement**

- **You decide to move forward in your life**
- **Stage 1 - You're Challenged by a 'Call To Adventure'**
- **An adventure which requires 'Change'**

**The Journey of Personal
Achievement**

- **You find yourself a 'proven pathway' on this adventure**
- **Stage 2 - You are faced with obstacles and ordeals on this path of change**

**The Journey of Personal
Achievement**

- **You stick on the pathway**
- **Real Personal and Meaningful Achievement enters your life**
- **Stage 3 - You are transformed as you have overcome obstacles that others ran away from. Your journey ends - so you can start a new one**

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Leaders from History

- **Robert the Bruce**
- **Ralph Klein...**

The Journey of A Real Estate Investor...

**Stick with the System or
try Short-cutting the
Process?**

The Journey of The Real Estate Investor

- **Decision to Grab your financial future**
- **Something must change!**
- **Major wake-up call or aching need**
- **Real Estate Provides cash flow and equity appreciation**
- **How Do I Do it right?**

Stage 1

- **You're excited by this new 'Call To Adventure'**
- **Adventure which requires 'Change' and 'out of comfort zone'**
- **Speed not an issue - just doing it right.**

The Journey of The Real Estate Investor

- **You discover a proven pathway**
- **Built on Long-Term Wealth strategies**
- **You meet obstacles, chaos, & struggle head on**
- **Speed not an issue - just doing it right.**

Stage 2 - Real Estate Investor

- **Chaos ensues as changes begin to occur**
- **Discouragement, defeats, questioning, insecurity, learning, loss all necessary for growth**
- **The Greater our Attachments to past - the greater the perceived chaos**

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Stage 2 - The Questions

- How about a short cut?
- Can I make a “ton of money” by playing it differently?
- My friends and acquaintances in gray area - maybe I should.

Stage 2 - Question Period

- **This is where you're most vulnerable to 'distractions'**
- **Watching others create lots of cash faster than you**

Stage 2 - Question Period

- **Become open to 'suggestions'**
- **“Not Really Illegal?” “She Said!”**
- **“Don't need to do my own homework I trust him”**
- **Justifications from you and others**

**Instant Society
Demands Instant
Results!**

**“If it doesn't happen
soon... it's not worth it!”
“Where's The Shortcut!”**

**Your Integrity is Your
Foundation!**

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The Journey of The Real Estate Investor

- **Decision time #1 -**
 - Do I continue on the path - or do I allow life to defeat me and end my adventure?
 - Do I go back to the old struggle I wanted to change? or
 - Do I go forward boldly knowing that change brings initial discomfort?

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**Real Estate Investing
is Not Get Rich Quick!**
**If Done Right, It Creates
Long Term Wealth &
Freedom**

Stage 3

- **We stick with our long-term plan**
- **We stick with our 'integrity'**
- **We achieve our long-term wealth goals**
- **We sleep well at night (no short-cuts)**
- **We end this adventure with achievement not another defeat!**

**Proven Facts
Throughout History...**
**There are no shortcuts
to Real Achievement,
There is always chaos
before major success.**

**Real Estate Investing
is Not Get Rich Quick!**
**There are no shortcuts
to Real Achievement**

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**Real Estate When
Done Right Has A
HUGE Positive Impact
on Your Family...**

**If Done in Gray area...
It can also have a
huge Negative impact
on your family!**

**Chose To Follow The
Longer but Proven
Path of Real Wealth &
Success!**

May Recommended Reading

- How To Get The Bank To Say YES in 2004!

AND

- A Better Way To Think About Business by Robert Solomon