

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 for 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"

– Felicia 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!

This Journey provides you the opportunity to make the choices

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**

**Your Integrity is Your
Foundation!**
**This Journey provides
you the opportunity to
make the choices**

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

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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