

Mortgage Fraud Emerging as Serious Issue (from May 2009 Advisory)

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Mortgage fraud has emerged as a serious issue in recent years and published estimates show it is costing lenders and insurers billions of dollars in losses in both Canada and the U.S. Together with investment scheme frauds, mortgage fraud presently tops the list of concerns facing the LSA and the Alberta Lawyers Insurance Association.

Mortgage fraud did not evolve during the most recent real estate boom, but has grown as a byproduct. Several factors have contributed to its growth:

- **Opportunities presented by rising markets** - Real estate values in recent years have led some individuals to attempt purchases without adequate resources to pay for the investment. Hoping for continuing increases in property values, investors have speculated on real estate, and some have falsified applications to obtain multiple properties.
- **Depersonalization of the process for buying real estate** - Lenders have been accessed without the requirement to meet anyone in person or have an established business relationship. Money and title documents have been transferred electronically, and property appraisals have been based on computer models.
- **Easier access to information about properties and homeowners** - Electronic access to the land registry system has made it easier to access information about registered real property, creating opportunities for new forms of mortgage and identity fraud.
- **Increased competition and increased pressure to close deals** - More lenders and increased competition significantly reduced barriers to borrowing money. Credit standards were frequently lowered, and documentation requirements were either relaxed or not inspected when transactions were occurring at a frenzied pace. Traditional safeguards, such as hiring a lawyer, were sometimes seen as hindering the speed and cost effectiveness of closing a deal.
- **Increasing sophistication and boldness of fraudsters** - Fraudsters jumped at these opportunities, in many cases initiating multiple fraudulent activities, hoping that loan irregularities would be lost in the volume or hidden by a profitable sale on the collateral. The electronic age has facilitated information sharing among fraudsters with the result that illegal activities adapt almost as fast as methods designed to prevent and detect them.