

Protect Your Business against Mortgage Fraud

By William Vasiliou, MBA, CPA, CGA, CFE, DAC
Chapter President

In the course of being involved with financial institutions and mortgage brokers I have learned that when lending your money or that of someone else there is no substitute for good initial due diligence and internal control procedures in underwriting mortgage loans.

A mortgage broker or lender with weak internal controls and eager to place mortgage product is open to manipulation and losses. Just like the good Samaritans, whose homes, during the depression, were marked by indigent travelers as easy pickings for a free meal or the senior citizens who are targeted by unscrupulous sale persons; so to is a lender or mortgage broker, identified as easy marks for quick cash.

What can you do to mitigate the potential for fraud? Know Your Client!

It is not enough just to pay lip service to the procedure. As a lender, if you are using the services of a mortgage broker intermediary look at their qualifications and the type of business they are in. How long have they been in business? What services do you expect from them? What policies and procedures do they have in place, are they registered to carry on mortgage brokerage activities? If they have agents how do they supervise these agents? What controls do they have in place to guard against professional misconduct?

If on the other-hand you engage your own "Road Warriors" are they qualified and how are they supervised? What internal controls are in place to deter and detect fraud? Is the compensation package based on quantity or quality of product? Do you monitor the product and track defaults by agent? Do you hold independent interviews of borrowers and ask if they have paid any secret commissions?

As a mortgage broker or a lender if you are receiving product from a real estate agent, remember that there is potential for a conflict of interest. Make certain you have conducted your due diligence with respect to the business relationship and that they have demonstrated professional responsibility. More importantly build your relationship with the potential borrower. Don't rely on the RE agent to exercise your statutory and professional obligations.

Make certain you:

- a) Conduct a personal interview with the borrower(s) without a third party agent present.
- b) Check photo ID's and signatures.
- c) Confirm the borrower(s) age, sex, and marital status.



William Vasiliou, MBA, CPA, CGA, CFE,
DAC
Chapter President



Protect Your Business against Mortgage Fraud

- d) Be suspicious of low-level jobs with high incomes.
- e) Be suspicious of any borrower who says the down payment is from off shore with no documentation.
- f) Conduct your own credit searches.
- g) Check the dates of entries on the credit report. Credit updates near the time of the mortgage application are a red flag for a potential problem even if the update is from a reputable institution.
- h) Do not accept photocopies of source data. Copy them yourself.
- i) Do not accept faxed documents from third party agents not known to you.
- j) Check the MLS listings for the asking price, selling price. Get a printout on the number of visits by prospects, the number of times the property has been listed, who had the listings before. Be wary of flips.
- k) If the T4's still have control number, compare the sequences. Be suspicious of copies and cut and paste efforts, changes in font style and size in the applicants name or the employer relative to the rest of the document. Ask to see the original tax return or the NOA summary prepared by the CRA.
- l) Double-check employer's address and verify ownership of telephone numbers. The Internet is great for doing this. Calling the number does not prevent fraud.
- m) Exercise caution and scrutinize gift letters, employment letters and landlord/ character reference letters.

Lending money on the security of real estate is not without its risk but that risk can be reduced if you exercise due diligence before you lend.

A Case for Mortgage Fraud:

A mortgage broker/ lender who sources mortgage product from other mortgage brokers had asked me to review several mortgages that they had underwritten because they believed that they may have been the victim of fraud. Upon an initial review several similarities were noted. All questionable files came from one brokerage source. Two real estate agents were identified as key players who supplied the product to the mortgage broker intermediary. The T4's, (before on-line documents became the rage), issued by different employers in the same year came from the same sequence of control numbers, as well T4's issued in the same year by the same company came from different sequences of numbers. Files with transactions that could be considered arms length contained original documents while those files with transactions that were questionable only held photo or fax copies of the purchaser's information. The solicitors of record on the arms length transactions varied while only two solicitors appear on those files that had discrepancies. Although these issues by themselves would not lead to a conclusion that a fraud had been committed, they raised sufficient questions to warrant further investigation.

In conducting more substantive tests the following additional information was uncovered:

- a) In 61% of the files reviewed, the mortgage application was prepared in whole or in part by the real estate agent.
- b) A review of MLS listings indicated that the histories of the properties in question are connected to the two real estate agents either through indirect ownership (a numbered company) or through straw-buyers and friendly-party sellers.



A Case for Mortgage Fraud:

- c) A property tax search indicated that the owner/occupant of one property was not the purchaser of record.
- d) In some cases the signatures of individuals who were supposedly different people were in fact very similar, while in other instances the signatures of a single individual were very different.
- e) A search of driver's licenses for the individual purchasers uncovered no records. The law of probability could not lead to a conclusion that none of these individuals were currently licensed to drive in Ontario.
- f) The phone number of one purchaser was the pager number for one of the real estate agents.
- g) The previous address of one purchaser was the same as the current address of another purchaser.
- h) A search of the business records of employers revealed that in several files employment letters indicated that individuals were employed long before the companies were registered with the Business Corporation's branch. It was further noted that none of the employers listed appear to have employed the purchasers and none of the businesses answer their phones.
- i) In one case a landlord's letter indicated that the person in question was a male while the mortgage file indicated that the borrower was a female. The phone number on the landlord's letters was that of one of the RE agents and one of the landlords was the common law spouse of a purchaser.
- j) Credit checks concluded that the real estate agents appear to have conducted the one and only credit check on the purchasers.
- k) Pre-authorized payments on two separate loans were drawn from the same branch of a financial institution while a vendor made others. Similarly, in other instances payments were drawn on a bank near the offices of one of the RE brokers and replacements came from arguably related RE agent's accounts.

Not all the findings have been enumerated but there is a lesson from this:

- * be aware of the red flags,
- * exercise skepticism even with established suppliers,
- * don't be too anxious for new product, and
- * don't take everything that comes your way even if it's insured.



About the author: **Bill Vasiliou** was a professor at Seneca College and has over 30 years of forensic and investigative experience in the financial services industry, in both the private and public sectors. Bill is now retired, but still provides consulting services.



Chapter Events

HEALTH CARE FRAUD: A PRESCRIPTION FOR A SOLUTION

Health and dental insurance coverage is a benefit offered by many employers, both large and small. The plans and coverage vary with the employer, but one thing they all have in common is that they can be targeted for fraud. This can range from a plan member submitting fabricated receipts to clinics offering cash or merchandise instead of medical supplies or treatments.

On May 29th, Andrew Kautz covered the most common fraud schemes and one insurer's response to the problem. His presentation was informative, entertaining and well received with the attendees. Thank you Andrew for another great session!

ACCA

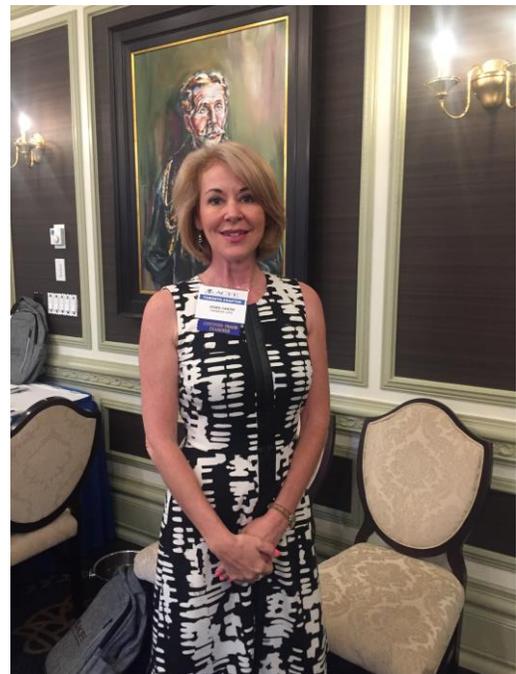
Association of Chartered Certified Accountants

With over 600,000 members, the ACCA is the largest global body for professional accountants. The ACCA has 101 offices in 57 countries as well as 98 accountancy partnerships globally. The ACFE Toronto would like to thank the ACCA for their sponsorship of our February and May dinner meetings! If you would like to learn more about the ACCA, [click here](#).



Congratulations to Jennilyn Thomas!!! Jennilyn's name was drawn for a free dinner meeting and ACFE computer bag.

Congratulations to our newest CFE



Josee Cantin



Traveling?

Why not check out up-coming events in our sister chapters:



Vancouver, BC
[Coming Events](#)



Calgary, AB
[Coming Events](#)



Edmonton, AB
[Coming Events](#)



Ottawa, ON
[Coming Events](#)



South-Western ON
[Coming Events](#)



Montreal, PQ
[Coming Events](#)

Congratulations to Derek Knights!

The Toronto Chapter of the ACFE would like to extend our best wishes to Derek Knights who is retiring after more than 40 years of service in the security industry.

Knights holds several designations including CPP, CISSP, CFE and CIPP/C and is a regular contributor and book reviewer for Canadian Security magazine.

HAPPY RETIREMENT DEREK!



Central Alberta man charged with fraud in \$2.6M fracking invention investigation

A central Alberta man was arrested and charged this week in a multi-million dollar fraud investigation into a so-called fracking invention that was touted as being revolutionary to the oil and gas industry. [Read more](#)

Newmarket private investigator avoids more prison time as fraud charges dropped

It was in 2009 when White, from Newmarket and her husband, former Toronto police Staff Sgt. Cullen Johnson, from Keswick, were charged with fraud in relation to what police said was a devious scheme. [Read more](#)

Hamilton woman charged in \$1M hospital union fraud

[Hamilton police](#) said on Wednesday that the fraud unit received a complaint last year from [CUPE Local 786](#) following the discovery of several "accounting irregularities." [Read more](#)

Knowledge House officials jailed on fraud and conspiracy charges

Two of Nova Scotia's most notorious white-collar criminals were sentenced to prison Wednesday after the longest criminal trial in the province's history, a complex fraud and conspiracy case involving a blockbuster multimillion-dollar stock market manipulation scheme. [Read more](#)

Ex-New York senator and son convicted of extortion, bribery

A former New York state Senate leader and his son were convicted on Tuesday of extortion, wire fraud and bribery charges of pressuring businesses to give the son no-show jobs or else risk losing the powerful Republican's political support. [Read more](#)

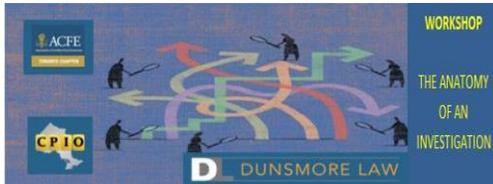
Vancouver man convicted of fraud in U.S. after companies solicited more than \$18M from 60,000 people

Mark Wilson and his telemarketing companies targeted mostly seniors in 37 different states. [Read more](#)



What's Next:

October 2 & 3, 2018



**JOINTLY SPONSORED BY:
ACFE TORONTO CHAPTER/CPIO/DUNSMORE LAW**

Investigations are happening everywhere. They cover any topic; harassment in the work place, cyber-bullying, fraud, expense account abuse, conflict of interest, theft of product, irresponsible conduct. Everyone is becoming an investigator.

But, to be a good investigator, you need to know the fundamentals. The body of work required is always made of the same parts. If you examine the anatomy of an investigation, certain principles exist, certain steps are necessary, certain rules apply. This seminar studies that body of work.

- How do you actually know when there is something to investigate?
- What does the Company environment tell you?
- Can you expect employees to participate in the process?
- Does a respondent have any rights?
- What role do experts play?
- What kind of investigative team is appropriate?
- How do you collect evidence properly?
- How do you interview well?
- What does a good investigation report look like?
- How do you use the end product?

Lawyer Ross Dunsmore and a team of experienced investigators and counsel will answer these questions.

For more information or to register, [click here](#)

ETHICS AND TRUST IN A DIGITAL AGE

September 11, 2018



**Narayanan Vaidyanathan, Head,
Business Insights ACCA**

Narayanan Vaidyanathan, will discuss ethical dilemmas arising from the introduction of new technology and the digital themes of liquid workforce and platform-based businesses. He will further address how accountants' ethical principles can help address these dilemmas.

[Click here for more information...](#)

ETHICS MATTERS

October 15, 2018



Dr. James E. (Jim) Read, Ph.D.-UCLA, 1988

Dr. Read has taught ethics courses and workshops and made presentations in Australia, Bermuda, Brazil, Canada, Chile, Denmark, England, Finland, Germany, Hungary, Kenya, Sweden, and the United States. He provides ethics consultation widely and has written extensively for Salvation Army publications.

[Click here for more information...](#)



Connect on LinkedIn

Did you know the ACFE Toronto Chapter has a new LinkedIn group? Find lots of great connections, articles, discussions, postings. Just go to LinkedIn ACFE Toronto Chapter page by clicking [here](#) and ask to be connected to be a part of this lively site.

Your Board of Directors

President	William Vasiou, MBA, CPA, CGA, CFE, DAC
Vice President and Training Chair	Astra Williamson, CPA, CGA, CFE
President Emeritus, Secretary and Conference Chair	Tom Eby, MBA, CPA, CA
Treasurer	Erik Bettencourt, CPA, CMA, CFE
Director	Colleen Basden, CPA, CA • IFA, CBV
Director	Andrew Kautz, CFE
Director and Newsletter Chair	Kathleen Watson, CFE
Director and Membership Chair	Ryan Duquette, MSc, CFE, CFCE, CEECS, EnCE, ACE
Director and Social Media Chair	Ryan Watt
Director and Membership and Certification Chair	Mark McManus, B. Comm (Hons.) M.Ed., FICB, CTDB, CAMS, CFE
Director and Community Outreach Chair	Dorian Dwyer, CFE
Director and Chapter Administrator	Penny Hill

About the ACFE

The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 70,000 members, the ACFE is reducing business fraud world-wide and inspiring public confidence in the integrity and objectivity within the profession. Visit www.acfe.com for more details.

Upcoming Events:



August 27-28, 2018 ACFE Vancouver presents – Controlling the Risk of Asset Misappropriation

Venue: Vancouver Marriott Pinnacle Downtown Hotel 1128 West Hastings St., Vancouver, BC
2 Day Seminar

[More Information and Registration](#)



September 25, 2018 IIA Toronto presents – Let's Get Interactive With Blockchain

Speakers: Behram Farouq, Asif Qayyum, Soumyajit Haldar, PwC
Venue: The Albany Club - 91 King Street East; Toronto, ON M5C 1G3
8:00-10:00am

[More Information and Registration](#)