

Mortgage Fraud - T.N.T. [Then ^ Now ^ Tomorrow]

Research Project for Emerging Issues / Advanced Topics Course

Master of Forensic Accounting Program University of Toronto

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For Professor Leonard Brooks

TABLE OF CONTENTS

Table of Contents	ii
Acknowledgements	iii
Executive Summary	iv
Preface	vi
Index	vii

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EXECUTIVE SUMMARY

This research paper provides a forensic analysis of mortgage fraud in Canada, with comparative references to the United States, approached through the lens of Investigative and Forensic Accounting (“IFA”). Grounded in the professional expertise of a Chartered Professional Accountant with practical experience managing a mortgage portfolio (See Appendix A - Author’s Profile Re: Mortgage Lending), the study explores the structural, behavioural, and regulatory dimensions of mortgage fraud - past, present, and **emerging**.

The study uses a mixed-methods approach that integrates forensic analysis, regulatory review, and qualitative interviews, to explore how institutional gaps, behavioural drivers, and technological shifts contribute to both individual and systemic fraud.

The paper dissects the architecture of the mortgage lending ecosystem, outlining the interdependencies of key actors including borrowers, brokers, lenders, lawyers, appraisers, insurers, and regulators. The paper incorporates original interviews and/or insights from stakeholders including legal professionals, developers, title insurers, lenders, a perpetrator and victims of mortgage fraud, providing an introspective unique 360-degree lens.

It presents a comparative analysis of Canadian and U.S. frameworks, highlighting differences in regulatory oversight, securitization practices, disclosure standards, and systemic vulnerabilities. Fraud typologies - “fraud for shelter” and “fraud for profit” - are examined alongside case studies and interview findings, including afore-noted insights from legal professionals, institutional lenders, a mortgage fraud perpetrator, and victims.

A core analytical tool used is the MORC ‘Diamond Model’ framework (Motive, Opportunity, Rationalization, Capacity), which reveals the psychological and institutional

drivers behind fraudulent conduct. The study also applies the PDR model (Preventive, Detective, and Remedial measures) to assess the adequacy of current safeguards.

The research underscores that while technological advances and regulatory reforms have strengthened fraud prevention and detection, significant gaps remain in enforcement, data integration, ethical culture, and inter-agency coordination. The paper calls for expanded roles for forensic accountants, centralized intelligence sharing, uniform licensing, and modernized digital infrastructure to pre-empt fraudulent activity. The role of Investigative and Forensic Accountants is highlighted as pivotal - not only in detection and damage quantification but also in litigation support and policy reform aimed at preventative measures.

The research concludes with targeted recommendations to fortify the mortgage system, including centralized fraud intelligence sharing, mandatory professional licensing reforms, enhanced use of RegTech, and expanded IFA involvement. These measures aim to shift the system from reactive enforcement to proactive resilience, restoring trust in a cornerstone of economic and social stability.

Seiichiro Ito (2011) wrote of 17th Century England: "... the best form of security to serve as a foundation for the unfamiliar institution of credit." "... registration of estates would help make credit more trustworthy and reliable." Alas, the argument over registries raged.

Ultimately, the study contributes to policy discourse and professional practice by offering practical, system-wide recommendations aimed at enhancing transparency, accountability, and fraud resilience in mortgage lending systems.

PREFACE

I have approached this research paper with the view to exploring the evolutionary phenomenon of mortgage fraud, carrying on from where my MFAcc in-training predecessors left off. And, through the lens of Investigative and Forensic Accounting, with a focus on identifying systemic vulnerabilities and assessing the adequacy of current safeguards in both the Canadian and American mortgage ecosystems. Grounded in professional experience as a Chartered Professional Accountant and supported by a practical understanding of mortgage instruments through my direct portfolio management, the analysis aims to bridge technical knowledge with foundational forensic application.

The paper traces the structure of the mortgage lending environment, outlines the role of key transactional participants, and contrasts regulatory frameworks across jurisdictions. Particular attention is paid to transaction standards, securitization practices, and legal infrastructure, all of which influence both the occurrence and detection of fraudulent activity. The study also integrates qualitative insights from stakeholders across the mortgage landscape, including legal professionals, institutional lenders, and victims, to provide a multidimensional view of how fraud is perpetrated and addressed.

Using the MORC ‘Diamond Model’ framework (Motive, Opportunity, Rationale, and Capacity) the paper offers a structured approach to understanding the behavioural and institutional factors that contribute to mortgage fraud. Reflections throughout the paper consider not only how fraud manifests, but why systemic deficiencies persist despite evolving regulation. The ultimate objective is to inform both practice and policy by identifying practical measures that improve fraud prevention, detection, and remediation within mortgage lending systems.

INDEX

<u>PART I</u>	<u>PAGE</u>
<u>1. Introduction</u>	1
1.1 Research Objectives and Questions -----	1
1.2 Relevance of Study to Financial Systems and Economic Stability -----	2
1.3 Scope and Limitations -----	3
1.4 Structure of the Paper -----	4
<u>2. Literature Review</u>	6
2.1 Academic and Industry Research on Mortgage Lending Systems -----	6
2.2 Prior Studies on Mortgage Fraud and Systemic Vulnerabilities -----	6
2.3 Role of Forensic Accountants (IFAs) in Financial Systems -----	7
2.4 Summary of Knowledge Gaps -----	8
<u>3. Research Methodology</u>	8
3.1 Research Design and Approach (Qualitative Skew) -----	8
3.2 Data Sources and Selection Criteria -----	11
3.3 Analytical Frameworks Employed (E.g., MORC 'Diamond Model') -----	12
3.4 Ethical Considerations -----	13
<u>PART II</u>	
<u>4. Structure of the Mortgage Lending System</u>	13
4.1 Definition and Lifecycle of a Mortgage -----	13
4.2 Participants in the Mortgage Transaction -----	16
4.2.1 Mortgagor (Borrower) -----	16
4.2.2 Mortgage Brokers -----	16
4.2.3 Referring Agents -----	16
4.2.4 Credit Agencies -----	16
4.2.5 Mortgagee (Lender) -----	17
4.2.6 Appraisers -----	17

4.2.7 Home Inspectors & Home Insurers -----	17
4.2.8 Lawyers -----	18
4.2.9 Notaries -----	18
4.2.10 Title Insurers -----	18
4.2.11 Registrars -----	18
4.2.12 Regulatory Authorities -----	18

5. Comparative Analysis of CDN and U.S. Mortgage Lending Systems 19

5.1 Regulatory Environment and Oversight Bodies -----	19
5.2 Lending Practices and Underwriting Standards -----	20
5.3 Role of Government Entities (E.g., CMHC vs. FHA/GSEs) -----	21
5.4 Mortgage Securitization and Risk Transfer -----	22
5.5 Disclosure Standards and Consumer Protections -----	23
5.6 Identified Systemic Strengths and Weaknesses -----	24

PART III

6. Nature and Typologies of Mortgage Fraud 25

6.1 Defining Mortgage Fraud -----	25
6.2 Key Typologies: -----	27
6.2.1 Fraud for Shelter -----	27
6.2.2 Fraud for Profit -----	28
6.3 Common Fraud Techniques and Red Flags -----	29
6.4 'Red, White & Blue' Collar Crimes -----	30
6.5 Case Examples and Known Precedents -----	33

7. Analytical Frame: Applying MORC Diamond Model to Mortgage Fraud 35

7.1 Motive: Financial and Social Drivers -----	35
7.2 Opportunity: Institutional Gaps and Oversight -----	37
7.3 Rationalization: Ethical Drift and Cultural Norms -----	38
7.4 Capacity: Access to Knowledge, Tools, Mindset and Systems -----	40

<u>8. Preventive, Detective, and Remedial Measures (PDR)</u>	41
8.1 Preventive Measures -----	41
8.1.1 Compliance Programs and Broker Licensing -----	42
8.1.2 Financial Literacy and Consumer Protection -----	43
8.1.3 Technological Controls (E.g., KYC, KYP, AI Risk Scoring) -----	44
8.2 Detective Measures -----	45
8.2.1 Audits, Data Analytics, and Risk Scoring -----	46
8.2.2 Cross-Agency Monitoring and Reporting -----	47
8.3 Remedial Measures -----	49
8.3.1 Civil, Regulatory, and Criminal Penalties -----	49
8.3.2 Institutional Recovery Mechanisms -----	50
8.3.3 Support for Affected Consumers -----	51

<u>9. The Role of IFAs in the Mortgage Ecosystem</u>	53
9.1 Detection and Analysis of Fraudulent Transactions -----	53
9.2 Mortgage File Reconstruction and Damage Quantification -----	55
9.3 Expert Testimony and Litigation Support -----	57
9.4 Advisory Role in Policy Reform and Risk Management -----	59

PART IV

<u>10. Systemic Challenges and Opportunities for Reform</u>	62
10.1 Coordination Gaps Across Institutions and Jurisdictions -----	62
10.2 Lack of Standardization in Risk Controls -----	64
10.3 Technology Adoption and Data Sharing -----	66
10.4 Recommendations for Policy and System Improvements -----	69

<u>11. Interview Findings</u>	71
11.1 Overview of Interviewees and Rationale for Selection -----	71
11.2 Key Themes and Insights from Interviewees -----	72
11.2.1 Key Themes and Insights from Interview 1: Real Estate/Mtge Lawyer -	72
11.2.2 Key Themes and Insights from Interview 2: Developer -----	75

11.2.3 Key Themes and Insights from Interview 3: Title Insurer -----	77
11.2.4 Key Themes and Insights from Interview 4: Lender -----	80
11.2.5 Key Themes and Insights from Interview 5: Fraud - Perpetrator -----	83
11.2.6 Key Themes and Insights from Interview 6: Fraud - Victims -----	85

PART V

12. Conclusion	87
12.1 Summary of Findings -----	87
12.2 Answer to Research Questions -----	89
12.3 Limitations and Areas for Further Study -----	91
12.4 Personal Reflections -----	92

PART VI

13. Appendices	- 1 -
Appendix A: Author's Profile Re: Mortgage Lending	- 2 -
Appendix B: Sample Mortgage Commitment Agreement (redacted)	- 3 -
Appendix C: Mortgage Fraud Case - The Vadim Kats Story	- 23 -
Appendix D: Interview Questionnaires and Answers	- 28 -
Appendix E: Glossary of Terms	- 68 -

14. Bibliography	- 71 -
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DISCLAIMER

The content of this research report is intended solely for educational purposes, to describe and explain key concepts, processes, laws and standards. It should not be relied upon for operational purposes and users should take care to obtain legal advice on all operational issues affecting their business.

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1. INTRODUCTION

1.1 Research Objectives and Questions

This **Research Project** seeks to critically examine the vulnerabilities, participants, and regulatory mechanisms within the mortgage lending systems of Canada and, secondarily, the United States, with an emphasis on preventing mortgage fraud. The central objective is to explore how such fraud occurs, why existing systems fail to prevent it, and how forensic accounting can assist in identifying, addressing, and preventing such incidents. The analysis is designed to be comparative and interdisciplinary, drawing on legal, financial, and forensic frameworks.

Key research questions include:

1. What structural and regulatory weaknesses in Canadian and U.S. mortgage lending frameworks allow mortgage fraud to persist?
2. Who are the key participants in a mortgage transaction, and what roles do they play in either enabling or preventing fraudulent activity?
3. How do regulatory and enforcement mechanisms differ between Canada and the U.S., and how effective are they in curbing fraud?
4. What role can forensic accountants play in preventing, detecting and responding to mortgage fraud?
5. What policy and operational reforms could enhance the resilience and integrity of the mortgage lending system, thus assisting in preventing fraud?

By addressing these questions as an overview, the project aims to contribute meaningful insight into systemic risk within mortgage financing and propose improvements that strengthen public trust and economic security.

1.2 Relevance of Study to Financial Systems and Economic Stability

Mortgage lending is a critical pillar of financial markets and national economies. Its proper functioning supports homeownership, capital markets, and consumer financial well-being. However, the integrity of this system is jeopardized when fraud occurs, particularly in instances involving ‘mortgage facilitators’ (“MFs”) who serve as intermediaries between borrowers (mortgagors) and lenders (mortgagees). Such fraud not only undermines individual transactions but also has the potential to trigger broader economic consequences. For example, the savings and loan crisis of the 1980s and 1990s (commonly dubbed the S&L crisis) was the failure of approximately a third of the savings and loan associations (S&Ls or thrifths) in the United States between 1986 and 1995. These thrifths were banks that historically specialized in fixed-rate mortgage lending.¹

The Federal Savings and Loan Insurance Corporation (“FSLIC”) closed or otherwise resolved 296 thrifths from 1986 to 1989, whereupon the newly established Resolution Trust Corporation (“RTC”) took up these responsibilities. The two agencies closed over 1,000 banks that held over \$500 billion in assets. The total cost of taxpayers by the end of 1999 was over \$150 billion.²

The relevance of this study stems from the clear linkage between mortgage fraud and systemic financial instability. The 2008 global financial crisis, for example, was partly

¹ Sharma, Padma (2022). "Government assistance and moral hazard: evidence from the Savings and Loan Crisis". *Economic Review*. 107 (3). Federal Reserve Bank of Kansas City: 37–53.

² Curry, Timothy; Shibus, Lynn (2000). "The cost of the Savings and Loan Crisis: truth and consequences" (PDF). *FDIC Banking Review*. 13 (2): 26–35.

precipitated by widespread misrepresentation and weak oversight in the mortgage origination process.³ This underscores how local acts of fraud, when aggregated, can catalyze systemic failures.

This project is timely and necessary, given the continuing reliance on third-party agents and the growing complexity of mortgage products. It will evaluate how institutional structures, regulatory gaps, and incentive misalignments enable MFs' misconduct. Furthermore, it will investigate how tools like forensic accounting, regulatory technology ("RegTech"), and legal reforms can help detect and, more importantly, deter such activity. By analyzing these dimensions in a structured and comparative manner, the research contributes to the field of financial regulation and forensic finance, offering tangible pathways to improve oversight, transparency, and economic resilience.

1.3 Scope and Limitations

This research paper is focused on mortgage fraud in the context of the Canadian and, secondarily, U.S. mortgage lending systems. It examines the structure of the mortgage transaction process, identifies the key participants involved, and analyzes the legal and regulatory frameworks that govern these transactions. Special attention is given to the role of intermediaries, such as brokers, appraisers, title insurance companies, and legal professionals, in both facilitating and preventing fraudulent practices.

The project adopts a qualitative and comparative approach. While it incorporates insights from real-world enforcement actions, regulatory reports, and academic literature, it does not include original statistical modelling or proprietary institutional data. Instead, it

³ Financial Crisis Inquiry Commission. (2011). *The financial crisis inquiry report: Final report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (p. xxii). PublicAffairs. <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>

synthesizes publicly available information and professional expertise to identify patterns, weaknesses, and solutions.

The study's geographic scope is limited to Canada and, secondarily, the United States, and while it references national-level institutions and legislation, some regional or state-level nuances - especially in the U.S. - are outside the project's capacity. The limitations also include the number and type of expert interviews conducted, which provide depth but not necessarily broad generalizability.

This project does not aim to produce an exhaustive legal or criminological treatise but instead serves as a cross-disciplinary inquiry rooted in forensic accounting, financial regulation, and institutional analysis.

1.4 Structure of the Paper

This research paper is organized into five substantive parts encompassing twelve thematic sections, each addressing a distinct dimension of the mortgage lending system and its vulnerabilities to fraud.

Part I: Section 1 introduces the research objectives of this Research Project, its relevance to the financial systems and economic stability, its scope and limitations, and the overall structure of the Paper. Following this introduction, Section 2 provides a retrospective look at the bases of mortgage lending systems and vulnerabilities therein and highlights the role of forensic accountants in financial systems while summarizing knowledge gaps in the mortgage system. Section 3 describes the research methodology employed, analytical frameworks employed, and corresponding ethical considerations.

Part II: Section 4 outlines the participants in a mortgage transaction within the mortgage ecosystem, detailing their roles, obligations, and potential exposure to misconduct. Section

5 examines the Canadian and American mortgage lending systems, respectively, providing a comparative overview of regulatory structures, licensing frameworks, and enforcement bodies.

Part III: Section 6 identifies the mechanisms and typologies of mortgage fraud, ranging from falsified documents to straw buyers and collusion among professionals. Section 7 applies the MORC ‘Diamond Model’ (Motive, Opportunity, Rationale, and Capacity) to understand how fraud manifests at the individual and organizational levels. Section 8 evaluates the mortgage system’s preventive, detective, and remedial measures (“PDR”), including compliance protocols, audit practices, whistleblower frameworks, and enforcement strategies. These sections also highlight the regulatory agencies and professional organizations involved in setting industry standards. Section 9 explores the role of the forensic accountant, particularly in fraud investigations, litigation support, and system analysis.

Part IV: Section 10 offers recommendations for improving the mortgage lending system and proposes enhanced oversight and accountability frameworks. Section 11 presents a summary of findings from expert interviews with professionals practicing real estate law, title insurance, and institutional lending.

Part V: Section 12, the final section of the substantive part of the report, presents the conclusion structured in a summary of findings, answer to research questions, and limitations and areas for further study. **Part VI:** has appendices, other supporting materials. This structure ensures logical progression from foundational concepts to applied analysis and reform proposals, supporting the research objectives in a methodical and academically rigorous manner.

2. LITERATURE REVIEW

2.1 Academic and Industry Research on Mortgage Lending Systems

A substantial body of academic and industry literature has developed around the architecture of mortgage lending systems, emphasizing their economic significance and evolving regulatory landscapes. Scholars have investigated how lending practices are shaped by institutional frameworks, credit risk policies, and macroeconomic conditions. In Canada, research highlights the influence of **centralized** institutions such as the Canada Mortgage and Housing Corporation (“CMHC”) and the Office of the Superintendent of Financial Institutions (“OSFI”) in promoting system stability through underwriting standards and risk retention. Conversely, the U.S. literature focuses on the **decentralization** of lending, the dominance of private securitization markets, and regulatory fragmentation among federal and state bodies. Industry analyses complement academic findings by offering real-time data on market trends, mortgage default rates, and shifts in borrower behavior.^{4,5} Collectively, this body of work informs the understanding of systemic strengths and weaknesses, highlighting both innovation in lending practices and the need for constant regulatory vigilance.

2.2 Prior Studies on Mortgage Fraud and Systemic Vulnerabilities

Previous studies have extensively catalogued the various forms of mortgage fraud and the structural vulnerabilities that facilitate them.⁶ Academic literature distinguishes between fraud for housing, where borrowers misrepresent information to gain homeownership, and

⁴ Canada Mortgage and Housing Corporation. (2019). *Residential Mortgage Industry Report – Q3 2019*. <https://assets.cmhc-schl.gc.ca/sf/project/cmhc/pubsandreports/residential-mortgage-industry-report/residential-mortgage-industry-report-69589-2019-en.pdf>

⁵ Canada Mortgage and Housing Corporation. (2024). *2024 CMHC Mortgage Consumer Survey*. <https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/housing-research/surveys/mortgage-consumer-surveys/survey-results-2024/2024-cmhc-mortgage-consumer-survey-en.pdf>

⁶ Smith, James. (2010). The Structural Causes of Mortgage Fraud.

fraud for profit, which involves coordinated schemes by insiders such as brokers, appraisers, and straw buyers.⁷ Systemic weaknesses are often traced to gaps in due diligence, moral hazard in the origination process, and failures in regulatory oversight. Research stemming from the 2007 - 2008 financial crisis in the U.S. underscores how the misalignment of incentives across market participants enabled widespread abuse, particularly in subprime lending and securitization.⁸ Canadian studies, while noting fewer instances of large-scale fraud, point to increasing risks in private lending, aggressive broker conduct, and regulatory blind spots.⁹ Overall, the literature emphasizes the importance of robust verification protocols, broker licensing standards, and inter-agency coordination in preventing fraud and reinforcing market integrity.

- **2.3 Role of Forensic Accountants (IFAs) in Financial Systems**

Forensic accountants occupy a unique and increasingly vital position within financial systems, particularly in the detection and investigation of complex financial misconduct such as mortgage fraud. Forensic accounting emphasizes the integration of legal knowledge, investigative skills, and advanced financial analysis. Their role extends beyond traditional audits, encompassing transaction tracing, data mining, document review, and expert witness testimony. In the context of mortgage lending, forensic accountants help uncover fraudulent misrepresentations, identify collusion among participants, and quantify financial damages for litigation or regulatory enforcement. IFAs assimilate the value of forensic methodologies in enhancing systemic transparency, as these professionals often

⁷ Kranacher, M.-J., Riley, R. A., & Wells, J. T. (2019). *Forensic accounting and fraud examination* (2nd ed.). Wiley.

⁸ Ibid., 3.

⁹ Cullen, A. (2022). *Final report: Commission of Inquiry into Money Laundering in British Columbia* (Vols. 1–5, pp. 841–857). Government of British Columbia.

operate at the intersection of compliance, internal control evaluation, and fraud risk assessment. As digital lending platforms proliferate and new fraud typologies emerge, the role of the forensic accountant is poised to become more indispensable in both preventive and remedial frameworks for financial institutions and public enforcement bodies.

2.4 Summary of Knowledge Gaps

While the existing literature provides a strong foundation, several critical knowledge gaps remain, particularly in the areas of regulatory efficacy, emerging technologies, and interdisciplinary fraud prevention. First, there is limited empirical analysis on the effectiveness of existing anti-fraud controls in mortgage origination and underwriting processes, especially within non-bank and private lending channels. Second, the intersection of digital mortgage platforms with data privacy, AI-based credit scoring, and decentralized finance remains underexplored. Third, few studies have examined the operational role of forensic accountants within lending institutions (a particular interest of mine) beyond litigation support, despite growing reliance on proactive risk analytics. Additionally, cross-jurisdictional studies comparing fraud incidence and response mechanisms in Canada and the U.S. are sparse, although the pathology knows no borders. These gaps suggest a need for a more integrated research agenda that bridges legal, technological, and forensic disciplines - offering new insights into how mortgage systems can be fortified against evolving threats and existing structural weaknesses.

3. RESEARCH METHODOLOGY

3.1 Research Design and Approach (Qualitative Skew)

Given the layered nature of mortgage lending systems, economic, legal, behavioural, and regulatory, and the complexity of fraud that arises within them, this paper adopts a mixed-

methods approach skewing toward the qualitative. Qualitative elements are driven by interviews with industry professionals, such as lawyers, developers, mortgagees / mortgagors, public administrators, and victims of title fraud, while references to quantitative elements incorporate observations from both Canada and the U.S. This dual approach is constructive as a purely quantitative model would ignore the nuance and adaptability of fraudulent actors, while a solely qualitative study would lack appropriate empirical weight. The interplay of policy and practice, regulation and circumvention, requires a hybrid lens. Moreover, the mixed approach supports a forward-looking dimension, one that not only evaluates how mortgage fraud has occurred but also anticipates how it might evolve in the future as actors respond to systemic pressures, and how reform may address these issues. This research employs a mixed-methods design, underpinned by the necessity to engage both empirical patterns and experiential insights in understanding mortgage fraud as a multi-dimensional phenomenon. Mortgage transactions are rooted not only in financial documentation but in human behavior, institutional structures, and evolving regulatory ecosystems - none of which are static, hence cannot be sufficiently captured through a single lens.

This quantitative component of the research draws on data sets from Canadian and American institutional sources to identify measurable trends in fraud occurrence, enforcement, and transactional irregularities. In Canada, the CMHC's internal reporting has highlighted an upward trend in suspected mortgage misrepresentations; CMHC has identified growing concerns around income misrepresentation and unverified documentation in mortgage applications, particularly among first-time homebuyers, with trends pointing to increasing reliance on brokers and a persistent perception that

falsification is common. “Mortgage fraud is a subset of financial crime, which has changed dramatically in the 2020s and in the post COVID-19 era. Primarily, but not entirely, the changes have been in the volume and velocity of the crime. In 2024, the Canadian Anti-Fraud Centre (“CAFC”) received reports of frauds totalling more than \$638 million; since 2021, fraud losses to Canadians have surpassed \$2 billion dollars. These metrics are remarkable in that, as the CAFC argues, that figure represents only 5 to 10 per cent of all fraud losses. Using the CAFC’s framework and reporting analysis, we can estimate real losses during that period to be, at a minimum, \$100 billion.”¹⁰ While Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”) does not publish disaggregated figures specific to mortgage-related suspicious transaction reports (“STRs”), it has repeatedly acknowledged that the real estate sector remains a significant channel for money laundering activities in Canada. In its public guidance and strategic intelligence assessments, FINTRAC identifies real estate-backed loans - particularly those involving third-party transactions, non-transparent beneficial ownership, and unexplained wealth - as high-risk vectors for illicit financial flows. In the United States, the FBI’s 2023 Mortgage Fraud Report identified over 11,000 Suspicious Activity Reports (“SARs”) relating specifically to mortgage fraud - an indicator of the volume and systemic reach of such schemes. “Identity and transaction fraud rise for the second consecutive year, CoreLogic reports: The CoreLogic Mortgage Application Fraud Risk Index increased 8.3% nationwide over last year and increased by 1.1% since last quarter. Overall, the CoreLogic report found that one in 123 mortgage applications were estimated to have indications of

¹⁰ Field, C. (2025, May 15). *Fighting mortgage fraud in Canada: Cameron Field: MacDonald-Laurier Institute*. Macdonald-Laurier Institute (MLI). <https://macdonaldlaurier.ca/fighting-mortgage-fraud-in-canada-cameron-field>

fraud in the second quarter of 2024.”¹¹ These quantitative insights provide a foundation for jurisdictional comparisons, while enabling a discussion around institutional blind spots, regulatory response timeframes, and fraudulent innovation relative to policy change.

The qualitative dimension is anchored in a series of structured interviews with key stakeholders who operate at the convergence of lending, legal enforcement, and regulatory compliance. These include real estate lawyers, underwriters, title insurers, and perpetrators and victims of fraud. Their perspectives inform the nuanced understanding of how fraudulent conduct is operationalized, where controls fail, and how professional discretion is either used or abused in real-world settings. The qualitative method allows for the exploration of behavioural rationales, institutional inertia, and the adaptability of fraud typologies in the face of evolving scrutiny.

This dual structure (statistical and testimonial) ensures the research does not merely observe symptoms but interrogates causality. It enables a fuller examination of the role of economic policy, foreign capital inflows, and socio-legal vulnerabilities, especially in an environment where real estate remains both the principal store of household wealth and a magnet for opaque capital. The mixed-methods approach is not just a methodological preference; it is an imperative, dictated by the subject matter’s entanglement of numbers and narratives, systems and people.

3.2 Data Sources and Selection Criteria

The credibility and depth of this research depends on the quality and relevance of the data. Primary sources include interviews with individuals operating at various points within the

¹¹ Jensen, K. (2024, October 17). *Mortgage fraud risk up 8.3% from last year*. National Mortgage Professional. <https://nationalmortgageprofessional.com/news/mortgage-fraud-risk-83-last-year>

mortgage ecosystem: real estate lawyers, underwriters, and representatives from institutions like title insurance companies. These participants were selected based on their proximity to transactions and/or fraud exposure. Secondary sources will include scholarly journals such as: Journal of Accounting and Economics; The Accounting Review; Review of Accounting Studies; Journal of Accounting, Auditing and Finance; Banking and Finance Law Review; Journal of Financial Crime; and, regulatory publications from FINTRAC, OSFI, FBI, and CMHC. Legal analysis draws from texts such as Falconbridge on Mortgages (Canada's leading authority), alongside case law and enforcement bulletins. Selection was based not just on credibility or recency, but also on relevance to mortgage fraud mechanisms, regulatory gaps, and the interplay between foreign capital and policy. Canadian and U.S. sources were balanced to support the comparative narrative integral to this paper which emphasizes that mortgage fraud is agnostic to domiciles.

3.3 Analytical Frameworks Employed (E.g., MORC ‘Diamond Model’)

At the core of this analysis lies the **MORC framework** (Motive, Opportunity, Rationale, Capacity), a behavioural model applied here not as a theoretical overlay but as an operational tool. Each case, pattern, and jurisdictional practice is considered against this model to identify systemic weak points and behavioural incentives. For example, “opportunity” manifests in overleveraged borrowers in opaque systems or understaffed regulatory bodies failing to verify appraisals or broker disclosures. “Rationale” often lies in either desperation (the individual) or calculated impunity (an organized group), depending on the actor. The PDR framework (Prevention, Detection, Response) complements this, applied to the institutional side of the equation in how systems do or do not respond. Both MORC and PDR are not just retrospective tools; they are used here to

project forward into likely fraud typologies as mortgage volumes increase, foreign capital persists, and technology disrupts traditional gatekeepers. This dual-framework approach is tailored to dissect both human behavior and structural failings.

3.4 Ethical Considerations

Ethical rigour is critical given the sensitivity of the topic and the professional standing of several interviewees. **When outside the confines of this project, all participants in the qualitative portion of this research have an expectation of anonymized, non-attributable interviews, with disclosures framed to protect confidentiality while still delivering actionable insight.** This is particularly important given that some comments pertain to systemic vulnerabilities or cases where fraud may not have been prosecuted but was identified internally. No data is fabricated, and care is taken to avoid speculative claims. The aim is not to sensationalize but to evaluate with clarity and responsibility. Where victims are discussed, for instance, The Vadim Kats Story in Section 6.4 (and Appendix C - The Vadim Kats Story), respect for their experience governs the narrative. The research also adheres to academic and professional codes of conduct, with no conflicts of interest, and complies with ethical research standards in keeping with the spirit of The Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans (“TCPS 2”) (Canada)¹² and general principles of responsible forensic inquiry. The project prioritizes the integrity of both the subject and the source.

4. STRUCTURE OF THE MORTGAGE LENDING SYSTEM

4.1 Definition and Lifecycle of a Mortgage

¹² Government of Canada, I. A. P. on R. E. (2023, January 11). *Tri-council policy statement: Ethical conduct for research involving humans – TCPS 2 (2022)*. Government of Canada, Interagency Advisory Panel on Research Ethics. https://ethics.gc.ca/eng/policy-politique_tcps2-eptc2_2022.html

Simply put, a **mortgage** is a legally binding agreement in which a borrower (mortgagor) pledges real property as collateral to secure a loan from a lender (mortgagee), typically for the purpose of purchasing a home or other real estate. The lifecycle of a mortgage transaction spans multiple stages, involving various professionals and institutions who ensure legitimacy, valuation, risk mitigation, legal compliance, and execution of the loan.

The lifecycle can be divided into key phases, each with specific actors:

Lifecycle Stages (1 - 6) and Participants (1 - 12):

1. Pre-Qualification and Application

- **(1) Borrower (Mortgagor)** - Initiates mortgage process.
- **(2&3) Mortgage Broker / Agent** - Facilitates matching borrower & lender.
- **(4) Credit Agency** - Provides credit profiles as part of the pre-approval process.
- **(5) Financial Institution (Mortgagee)** - Provides loan options and pre-approval.

2. Property Assessment

- **(6) Appraiser** - Determines fair market value of the property.
- **(7) Home Inspector** - Assesses physical condition of the home/property.

Home Insurer provides coverage on the property from unexpected losses.

3. Legal and Risk Management

- **(8&9) Lawyer / Notary** - Contract review, legal compliance, and title transfer.
- **(10) Title Insurer** - Protects against title defects in property ownership or disputes.

- (11) **Registrar / Land Titles Office** - Officially records mortgage and ownership.
- 4. **Regulatory Oversight**
 - (12) **Regulatory Authorities** - Ensure licensing, disclosure, and compliance with mortgage lending laws (e.g., FSRA in Ontario, CFPB in the U.S.).
- 5. **Funding and Closing**
 - Funds are disbursed, title transferred, mortgage registered, and repayment terms activated.
- 6. **Repayment and Discharge**
 - The borrower repays over time; the mortgage is discharged once fully paid.
- 7. **Mortgage ‘Clock’ Diagram**



4.2 Participants in a Mortgage Transaction

The mortgage lending ecosystem comprises various stakeholders whose roles are interdependent and collectively ensure the integrity, legality, and viability of real estate financing. Below is a breakdown of each key participant in the system:

4.2.1 Mortgagors (Borrowers)

The mortgagor is the individual or entity seeking financing to purchase or refinance real estate. By executing the mortgage agreement (See Appendix B - Sample Mortgage Commitment Agreement (redacted)), the borrower pledges the property as security against the loan. The mortgagor is responsible for satisfying all financial obligations under the terms of the loan agreement, including timely payment of principal and interest, adherence to insurance and tax requirements, and maintaining the property's condition. The mortgagor initiates the transaction and remains a central party throughout the life of the mortgage.

4.2.2 & 3 Mortgage Brokers and Referring Agents

Mortgage brokers and referring agents act as intermediaries between borrowers and lenders. They do not lend funds themselves but facilitate the matching of clients with appropriate mortgage products by evaluating financial profiles and navigating lending markets. Their compensation is typically commission-based (including finance referral fees) and contingent on loan placement. These professionals play a crucial advisory role and, as applicable, must comply with licensing and disclosure regulations.

4.2.4 Credit Agencies

Credit agencies act as intermediaries between borrowers and lenders. They do not lend funds themselves but facilitate transactions by assisting prospective lenders and investors

in deciding whether to lend/extend credit to an individual/business by assessing the borrower's probability of repaying the debt in a timely manner. These professionals play a crucial reference role and must comply with licensing and disclosure regulations.

4.2.5 Mortgagees (Lenders)/Financial Institutions (Banks, Trusts, Credit Unions)

The mortgagee is the lending institution or private entity that extends credit to the borrower in exchange for a secured interest in the property. This role involves assessing creditworthiness, structuring loan terms, disbursing funds, and ensuring ongoing risk management. The mortgagee holds a lien (mortgage) on the property until the debt is repaid in full, providing a legal recourse in the event of borrower default.

Financial institutions serve as the primary sources of mortgage capital. Banks, trust companies, and credit unions underwrite, fund, and administratively service mortgages while operating under the oversight of financial regulators. They provide the infrastructure for risk assessment, interest rate setting, securitization of mortgages, and post-origination servicing. Their underwriting standards heavily influence mortgage availability and pricing.

4.2.6 Appraisers

Appraisers are certified professionals responsible for providing an objective estimate of the property's market value. Their valuation informs the lender's risk exposure and helps determine the loan-to-value ("LTV") ratio. A credible appraisal is essential to ensure that the property value supports the loan amount and to mitigate the risk of over-financing or potential fraud.

4.2.7 Home Inspectors & Home Insurers

Home inspectors conduct technical evaluations of a property's structural and mechanical systems. Their findings provide prospective buyers with transparency regarding the condition of the home and inform decisions on whether to proceed, renegotiate, or abandon the purchase. For lenders, inspection reports help safeguard against hidden liabilities that may impact collateral value.

Home insurance protects the property from unexpected losses once a mortgage transaction has occurred and provides liability coverage in case of accidents or incidents. It secures the value of the property for the mortgagee in priority to subordinate/unencumbered debt.

4.2.8 & 9 Lawyers and Notaries

Lawyers (or notaries in civil law jurisdictions, such as Quebec) manage the legal aspects of the mortgage transaction, including reviewing contractual documents, conducting title searches, and registering liens. They act on behalf of buyers, lenders, or both, ensuring that all legal rights and obligations are clearly articulated and protected. Their oversight minimizes transactional risks and ensures compliance with statutory requirements.

4.2.10 & 11 Title Insurers and Registrars

Title insurers offer protection against defects in title, undisclosed encumbrances, or fraud that may arise post-purchase. They conduct comprehensive due diligence prior to issuance. Registrars, often part of government land registry systems, are responsible for the official recording of property ownership and liens. Together, they ensure legal clarity and enforceability of property interests; and, with lawyers, form the nucleus of a real property transaction.

4.2.12 Regulatory Authorities

These bodies (e.g., OSFI, FSRA in Canada; CFPB in the U.S.) oversee the conduct of mortgage lenders, brokers, and other actors in the lending system. They enforce licensing standards, consumer protection laws, disclosure obligations, capital requirements, and anti-fraud frameworks. Regulators play a crucial role in safeguarding systemic stability, promoting transparency, and protecting consumer interests.

5. COMPARATIVE ANALYSIS OF CDN AND U.S. MORTGAGE LENDING SYSTEMS

5.1 Regulatory Environment and Oversight Bodies

Canada operates under a centralized regulatory framework for mortgage lending. The primary federal regulator is the Office of the Superintendent of Financial Institutions (OSFI), which oversees federally regulated financial institutions, including banks and insurance companies.¹³ OSFI's mandate is to ensure the stability and soundness of the financial system. Additionally, the Financial Consumer Agency of Canada ("FCAC") enforces consumer protection laws and monitors financial institutions' compliance with consumer-related provisions. The Canada Mortgage and Housing Corporation (CMHC), a Crown corporation, plays a pivotal role in housing policy and mortgage insurance.

In contrast, the United States has a more fragmented regulatory structure. Multiple federal agencies oversee different aspects of mortgage lending:¹⁴

- The Consumer Financial Protection Bureau ("CFPB") enforces federal consumer financial laws and supervises financial institutions for compliance.¹⁵

¹³ Office of the Superintendent of Financial Institutions. (2024, May 3). *About osfi*. <https://www.osfi-sif.gc.ca/en/about-osfi>

¹⁴ Labonte, M. (n.d.). (rep.). *Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework* (Version 10, updated, p. Title-Summary). Congressional Research Service.

¹⁵ The CFPB. Consumer Financial Protection Bureau. (2024, December 12). <https://www.consumerfinance.gov/about-us/the-bureau/>

- The Office of the Comptroller of the Currency (“OCC”) regulates and supervises national banks and federal savings associations.
- The Federal Reserve System oversees bank holding companies and certain state-chartered banks.
- The Federal Deposit Insurance Corporation (“FDIC”) insures deposits and supervises state-chartered banks not members of the Federal Reserve System.

Additionally, each state has its own regulatory bodies overseeing state-chartered institutions, leading to a dual state-federal regulatory system.

The centralized approach in Canada allows for uniform regulatory standards and streamlined oversight, which can enhance financial stability. Conversely, the U.S. system's complexity can lead to regulatory overlaps and gaps, potentially contributing to systemic risks, as observed during the 2008 financial crisis.

5.2 Lending Practices and Underwriting Standards

In Canada, mortgage lending practices are characterized by conservative underwriting standards. OSFI's Guideline B-20 outlines expectations for residential mortgage underwriting, including¹⁶:

- Verification of the borrower's income and employment status.
- Assessment of the borrower's ability to repay, considering debt service ratios.
- Stress testing to ensure borrowers can handle interest rate increases.

These measures aim to maintain prudent lending practices and mitigate risks associated with mortgage defaults.¹⁷

¹⁶ Office of the Superintendent of Financial Institutions. (2021, December 23). *Final revised guideline B-20: Residential mortgage underwriting practices and procedures*. <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/final-revised-guideline-b-20-residential-mortgage-underwriting-practices-procedures>

¹⁷ *Financial stability report-2025*. Bank of Canada. (n.d.). <https://www.bankofcanada.ca/2025/05/financial-stability-report-2025/>

The United States implemented significant reforms following the 2008 financial crisis. The Dodd-Frank Wall Street Reform and Consumer Protection Act introduced the Ability-to-Repay (“ATR”) rule and the Qualified Mortgage (“QM”) standards. Lenders are required to make a reasonable and good faith determination of a consumer's ability to repay a mortgage loan,¹⁸ considering factors such as income, employment, credit history, and debt obligations.

While both countries emphasize responsible lending, Canada's stricter regulations and shorter mortgage terms (typically five years) contribute to a more stable housing market. In contrast, the U.S. offers a wider variety of mortgage products, including 30-year fixed-rate mortgages and adjustable-rate mortgages, which can introduce additional risks for borrowers.

5.3 Role of Government Entities (E.g., CMHC vs. FHA/GSEs)

The Canada Mortgage and Housing Corporation (CMHC) serves as Canada's national housing agency, providing mortgage insurance for high-ratio mortgages (those with less than 20% down payment) and facilitating access to affordable housing. CMHC's role includes:¹⁹

- Offering mortgage loan insurance to protect lenders against borrower default.
- Promoting housing affordability and accessibility.
- Conducting research and analysis on housing trends.

In the United States, several government entities are involved in the mortgage market:

¹⁸ *What is the ability-to-repay rule?*. Consumer Financial Protection Bureau. (2024b, April 26). <https://www.consumerfinance.gov/ask-cfpb/what-is-the-ability-to-repay-rule-en-1787/>

¹⁹ *CMHC Purchase Mortgage Loan Insurance*. CMHC. (n.d.). <https://www.cmhc-schl.gc.ca/professionals/project-funding-and-mortgage-financing/mortgage-loan-insurance/mortgage-loan-insurance-homeownership-programs/purchase>

- The Federal Housing Administration (“FHA”) provides mortgage insurance on loans made by FHA-approved lenders, primarily targeting low - to moderate - income borrowers.^{20,21}
- Government-Sponsored Enterprises (“GSEs”) like Fannie Mae and Freddie Mac purchase mortgages from lenders, providing liquidity in the mortgage market. They package these loans into mortgage-backed securities (“MBS”) sold to investors.

While both CMHC and U.S. entities aim to support homeownership, the U.S. system's reliance on GSEs has been criticized for contributing to the 2008 financial crisis due to the proliferation of risky mortgage products. Canada's more centralized and conservative approach has been credited with maintaining greater housing market stability. The regulatory body for GSEs (Fannie Mae, Freddie Mac) includes reports on their performance and market role.

5.4 Mortgage Securitization and Risk Transfer

Canada's mortgage securitization is primarily managed by CMHC through programs like the Canada Mortgage Bonds (“CMB”) and Mortgage-Backed Securities (MBS) programs.²² These initiatives:

- Allow lenders to pool insured mortgages and sell them to investors.
- Provide lenders with stable funding sources.

²⁰ *Federal Housing Administration history: Hud.gov / U.S. Department of Housing and Urban Development (HUD)*. Federal Housing Administration History | HUD.gov / U.S. Department of Housing and Urban Development (HUD). (n.d.). <https://www.hud.gov/aboutus/fhahistory>

²¹ *Affordable Housing & Community Investment: FHFA*. FHFA.gov. (2025, January 30). <https://www.fhfa.gov/programs/affordable-housing>

²² *Securitization*. CMHC. (n.d.-b). <https://www.cmhc-schl.gc.ca/professionals/project-funding-and-mortgage-financing/securitization>

- Transfer mortgage default risk to investors, backed by government guarantees.

In the United States, mortgage securitization is a significant component of the housing finance system.²³ GSEs like Fannie Mae and Freddie Mac purchase mortgages from lenders, pool them, and issue MBS to investors. Additionally, private-label securitization involves non-government entities packaging and selling MBS without government guarantees.

The U.S. securitization market offers greater liquidity and investment opportunities but also introduces complexities and potential systemic risks, as evidenced during the financial crisis. Canada's government-backed securitization provides stability but may limit market diversity and innovation.²⁴

5.5 Disclosure Standards and Consumer Protections

Canada mandates that federally regulated financial institutions provide clear, simple, and not misleading information to consumers regarding financial products and services.²⁵ The Financial Consumer Agency of Canada (the FCAC) oversees compliance with disclosure requirements, ensuring consumers receive essential information about mortgage terms, fees, and penalties.²⁶

²³ *Assets: Securities held outright: Mortgage-backed securities: Wednesday level.* FRED. (2025, May 22). <https://fred.stlouisfed.org/series/WSHOMCB>

²⁴ Mordel, A., & Stephens, N. (2015). *Residential Mortgage Securitization in Canada: A Review*. Bank of Canada. <https://www.bankofcanada.ca/wp-content/uploads/2015/12/fsr-december2015-mordel.pdf>

²⁵ Branch, L. S. (2025, May 14). *Consolidated federal laws of Canada, Financial Consumer Protection Framework Regulations*. Financial Consumer Protection Framework Regulations. <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2021-181/page-1.html>

²⁶ Canada, F. C. A. of. (2024, December 3). *Government of Canada*. Canada.ca. <https://www.canada.ca/en/financial-consumer-agency/services/industry/commissioner-guidance/guidance-9.html>

In the United States, the Truth in Lending Act (“TILA”) and the Real Estate Settlement Procedures Act (“RESPA”) were integrated into the TILA-RESPA Integrated Disclosure (“TRID”) rule.²⁷ TRID requires lenders to provide borrowers with standardized forms:

- Loan Estimate: Outlines key loan terms and estimated costs.
- Closing Disclosure: Provides final loan terms and costs.

These disclosures aim to enhance transparency and help consumers make informed decisions.

Both countries prioritize consumer protection through disclosure requirements. However, the U.S. system's standardized forms and timelines may offer greater clarity, while Canada's principles-based approach allows for flexibility but may result in variability across institutions.

5.6 Identified Systemic Strengths and Weaknesses

Canada's mortgage system is often praised for its stability, attributed to:²⁸

- Conservative lending practices and stringent underwriting standards.
- Government-backed mortgage insurance through CMHC.
- Centralized regulatory oversight.

²⁷ *TILA-RESPA Integrated Disclosures (TRID)*. Consumer Financial Protection Bureau. (2024b, December 17). <https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/tila-respa-integrated-disclosures/>

²⁸ *Financial stability report-2025*. Bank of Canada. (2025, May 9). <https://www.bankofcanada.ca/2025/05/financial-stability-report-2025/>

However, potential weaknesses include:

- High household debt levels.
- Exposure to housing market corrections.
- Limited competition due to the dominance of major banks.

The United States benefits from:

- A diverse range of mortgage products catering to various borrower needs.
- A deep and liquid secondary mortgage market.
- Innovation driven by competition among lenders.

Nevertheless, the U.S. system faces challenges such as:

- Regulatory complexity and potential overlaps.
- Vulnerability to systemic risks, as seen during the 2008 crisis.
- Ongoing debates over the roles and structures of GSEs.

Canada's approach emphasizes stability and risk mitigation, while the U.S. system offers greater diversity and innovation but with increased complexity and potential vulnerabilities.²⁹

6. NATURE AND TYPOLOGIES OF MORTGAGE FRAUD

6.1 Defining Mortgage Fraud

²⁹ Ibid., 24.

Mortgage fraud refers to any material misstatement, misrepresentation, or omission made with the intent to deceive a lender or other party involved in the mortgage lending process. It is a form of financial crime that can include individuals, borrowers, real estate professionals, financial institutions, or organized networks.³⁰ In both Canada and the United States, mortgage fraud can be prosecuted under broader criminal laws such as fraud, forgery, or conspiracy, rather than a standalone statute. The legal definition varies slightly by jurisdiction, but the underlying principle remains consistent - deliberate deception to obtain mortgage financing under false pretenses.

Mortgage fraud undermines the integrity of financial systems by distorting credit risk assessments and exposing lenders to unanticipated defaults. It also erodes public trust in real estate markets and contributes to economic instability, particularly when fraud is systemic. In contrast to borrower defaults due to financial hardship, mortgage fraud is intentional and planned, with perpetrators exploiting weaknesses in documentation, verification, and regulatory oversight.

The dual nature of mortgage fraud - “fraud for shelter” and “fraud for profit” - frames the motivation behind the crime. While the former is often committed by individual borrowers trying to obtain housing they otherwise could not afford, the latter is typically orchestrated by professionals or criminal syndicates aiming to extract financial gains. Both forms may involve similar mechanisms - such as falsified income, inflated appraisals, and identity theft - but differ fundamentally in scale, intent, and societal impact.

³⁰ *Mortgage loan fraud*. FinCEN.gov. (n.d.). <https://www.fincen.gov/mortgage-loan-fraud>

Understanding mortgage fraud requires not only a legal definition but a conceptual framework that situates it within broader financial crimes. This includes recognizing how market incentives, gaps in regulation, and complex mortgage structures (like securitization) can create fertile ground for fraudulent behaviour, especially when oversight is weak or fragmented.^{31,32, 33}

6.2 Key Typologies:

Mortgage fraud typologies are generally categorized based on the underlying motivation of the perpetrator. The two primary forms (fraud for shelter and fraud for profit) exemplify distinct behavioural patterns, actors, and consequences, although overlaps can occur.³⁴

6.2.1 Fraud for Shelter

This typology is most associated with individual borrowers who falsify information to qualify for a loan they otherwise could not secure. This may involve misrepresenting income, inflating assets, or concealing debts. While these actions are intentional and illegal, the primary motivation is housing, i.e., securing a place to live rather than financial gain. In the Canadian context, this is often seen among first-time homebuyers or immigrants

³¹ *Mortgage fraud*. CMHC. (n.d.-b). <https://www.cmhc-schl.gc.ca/professionals/project-funding-and-mortgage-financing/mortgage-loan-insurance/mortgage-fraud>

³² FBI. (2006, December 1). *Financial Crimes Report to the public - 2006*. FBI. https://www.fbi.gov/file-repository/reports-and-publications/stats-services-publications-fcs_report2006-financial-crimes-report-to-the-public-2006-pdf/view

³³ PricewaterhouseCoopers. (n.d.). *PwC's Global Economic Crime and Fraud Survey 2022*. PwC. <https://www.pwc.com/gx/en/services/forensics/economic-crime-survey/2022.html>

³⁴ *Ibid.*, 31.

with limited credit histories. In the U.S., it became especially prevalent during the subprime mortgage boom when low-documentation or so-called “liar loans”³⁵ were common.

Despite being seen as a lower-risk form of fraud, “fraud for shelter” still poses significant concerns. It can distort lending metrics, contribute to broader market instability, and become systemic when housing affordability pressures are high. In jurisdictions with inflated housing markets, like Toronto or Vancouver, this form of fraud may be rationalized by borrowers who see homeownership as essential, even at the cost of misrepresentation.

6.2.2 Fraud for Profit

In contrast, “fraud for profit” is usually perpetrated by industry insiders - real estate agents, mortgage brokers, lawyers, or organized criminal groups. These schemes involve multiple parties and are designed to extract cash from the mortgage process through inflated appraisals, straw buyers, kickbacks, or property flipping. This type of fraud is more complex and far-reaching, capable of affecting multiple lenders and properties in a coordinated manner.

Unlike shelter fraud, profit-driven fraud thrives on collusion, access to professional networks, and knowledge of regulatory loopholes. It can erode financial system stability and has been linked to housing market collapses, especially in the U.S. during the 2008 crisis.³⁶

³⁵ Vermilyea, T., & Blackburn, M. L. (2009, September). *The prevalence and impact of misstated incomes on ... The Prevalence and Impact of Misstated Incomes on Mortgage Loan Applications*. https://www.frbsf.org/wp-content/uploads/MortgLoanApplic_Blackburn.pdf

³⁶ Griffin, J. M. (2020, July 29). Was fraud a force in the financial crisis? John M. Griffin. <https://www.aeaweb.org/content/file?id=13538>

6.3 Common Fraud Techniques and Red Flags

Mortgage fraud schemes exploit vulnerabilities at multiple stages of the lending process.

Common techniques include identity theft, falsified employment or income documentation, inflated appraisals, use of straw buyers, undisclosed kickbacks, and title fraud. In some cases, fraudsters will even create shell companies or fictitious employers to verify income or employment for prospective borrowers.³⁷

Appraisal fraud, for example, involves deliberately inflating the value of a property to increase the loan amount. In schemes involving straw buyers, an individual with good credit is recruited - sometimes unknowingly - to obtain financing for a property that the actual fraudster controls. Another pervasive method is income misrepresentation, particularly in self-employed borrower segments, where documentation may be less standardized.

Red flags for fraud detection include discrepancies in documentation (e.g., mismatched addresses, suspicious employer names), rapid resales or property flips, unusual cash-back arrangements, inflated property valuations not in line with market trends, and inconsistent financial statements. In high-fraud-risk zones, such as major urban centres with rapid price appreciation, institutions are encouraged to enhance their due diligence protocols.³⁸

Technology has also introduced new avenues for deception, including synthetic identity fraud and the use of digital platforms to manipulate financial statements. Conversely,

³⁷ *True lies: Beware phantom employers.* Freddie Mac Single-Family. (2009, July 15).

<https://sf.freddiemac.com/articles/news/true-lies-beware-phantom-employers>

³⁸ Detecting and preventing mortgage fraud. (2023, September 28). <https://www.fsrao.ca/media/23906/download>

advancements in AI and data analytics are being deployed to detect anomalies in borrower behaviour, transactional patterns, and property valuations.

Mortgage fraud detection requires cross-functional coordination between lenders, title insurers, regulators, legal professionals, and forensic accountants. Early detection and preventive screening are critical to mitigating systemic risk and maintaining integrity in the mortgage finance ecosystem.

- U.S. Federal Financial Institutions Examination Council (“FFIEC”) Guidance.

6.4 ‘Red, White & Blue’ Collar Crimes

One of the most underexplored dimensions of mortgage fraud is how society perceives Red-Collar (fiscal-physical) crimes, White-Collar (fiscal) crimes, and Blue-Collar (physical) crimes. Despite the immense financial and social harm that mortgage fraud can cause - contributing to housing market crashes, displacing families, and triggering investor losses - it is often treated with surprising leniency or moral indifference. This disparity reflects a deeper societal value system that tends to prioritize the visibility, immediacy, and emotional weight of harm, rather than its scale or long-term impact.

Blue-collar crimes, such as burglary or assault, are widely condemned because the damage they cause is direct, tangible, and personal. These acts provoke strong public outrage and are typically met with swift legal consequences. In contrast, white-collar crimes - including mortgage fraud - often unfold in boardrooms or via electronic filings. The victims are less visible, the harm is dispersed across a breadth of institutions or communities, and the language used to describe the wrongdoing is sanitized: “misrepresentation,” “non-

disclosure,” “irregularity.” This rhetorical framing distances the perpetrator from the perceived gravity of the offence. Consequently, fraudsters face lighter sentencing, and the crime may even be normalized in overheated real estate markets where “everyone does it.”

Yet, the consequences of mortgage fraud are anything but benign. Families can lose homes, neighborhoods can deteriorate due to foreclosures, and entire financial systems can be destabilized, as seen during the 2008 global financial crisis. The damage may be abstract or delayed, but it is no less real. The classification of these acts as white-collar tends to obscure the human cost and reduce societal urgency for justice.

This discrepancy reveals deeper systemic issues. For example, in both Canada and the U.S., white-collar crime prosecution rates remain low relative to the scale of the damage caused. Regulatory bodies are often under-resourced, and legal frameworks may prioritize restitution over incarceration, even if collection is implausible. Furthermore, when fraud is committed by individuals seeking homeownership, public opinion may skew toward sympathy rather than condemnation, especially if the housing market is viewed as unfair or exclusionary.

The term **red-collar** crime, first introduced by Perri and Lichtenwald, adds further nuance.³⁹ It describes violent acts committed to conceal financial crimes. Though less common in mortgage fraud at the inception of a mortgage cycle, this category highlights the capacity of fiscal crime to escalate into physical violence, especially when fraud is tied to organized crime or high-stakes concealment. Mortgage fraud has, in some instances, involved

³⁹ Perri, F. S. (2008). *A proposed addition to the FBI criminal classification ... A Proposed Addition to the FBI Criminal Classification Manual*. <https://www.ojp.gov/pdffiles1/225071.pdf>

coercion, intimidation, or threats against whistleblowers and law enforcement - blurring the boundary between fiscal and physical offence.

Moreover, the justice system's treatment of these crime categories often reflects underlying structural inequalities. White-collar offenders are disproportionately from privileged socio-economic backgrounds. They may possess the legal resources to negotiate settlements, avoid incarceration, or delay proceedings indefinitely.⁴⁰ Meanwhile, blue-collar offenders - often from marginalized communities - face harsher penalties for crimes that, while serious, may involve far less monetary damage.

This **uneven application of justice** raises questions about the integrity of legal and regulatory frameworks. If someone commits mortgage fraud that leads to dozens of evictions, financial ruin for lenders, or taxpayer-funded bailouts, should that not warrant a response equal to, or greater than, a physical theft? Reframing how society views and addresses financial crime, particularly when it causes systemic harm, is essential for restoring trust in the justice system.

A classic illustration of the inequity of White-Collar crime is the tragic story of Vadim Kats, who became a victim of Arash Missaghi, a man who ran mortgage investment 'scams' for over 20 years.^{41,42} He used real estate lawyers to legitimize fraudulent deals, often through coercion or threats. Despite dozens of lawsuits, Law Society hearings, and

⁴⁰ Podgor, E. S. (2007). The Challenge of White Collar Sentencing.

https://www.researchgate.net/publication/228221832_The_Challenge_of_White_Collar_Sentencing

⁴¹ White, P., Freeze, C., & Postelnyak, M. (2024, June 21). *Businessman killed in Toronto triple shooting defrauded hundreds of victims, netted at least \$100-million, records show*. The Globe and Mail.

<https://www.theglobeandmail.com/canada/article-businessman-killed-in-toronto-triple-shooting-defrauded-hundreds-of/>

⁴² Postelnyak, M. (2024, September 6). *Lawyer who represented Arash Missaghi suspended during disbarment proceedings*. The Globe and Mail. <https://www.theglobeandmail.com/canada/article-lawyer-who-represented-arash-missaghi-suspended-during-disbarment/>

civil complaints, no criminal convictions were ever secured. Even with extensive allegations, Missaghi was never publicly called out or ‘blacklisted’ in a way that prevented further fraud, not even in the media. Missaghi frequently used threats of violence to coerce lawyers into participating in his fraudulent activities. Kats was a distraught victim of fraud who lost his life savings (over one million dollars) to Missaghi. In June 2024, Kats - while seeking restitution - shot and killed Missaghi, as well as his accomplice mortgage broker Samira Yousefi, before taking his own life. He left a suicide note blaming Missaghi and two lawyers for his financial ruin and consequential emotional distress. Institutions often fail to intervene in white-collar crimes, allowing them to persist and escalate, as in the case of Vadim Kats. The absence of justice in the legal system, perceived or otherwise, can push desperate victims into violent retaliation when they feel abandoned by the institutions meant to protect them. (See Appendix C - The Vadim Kats Story)

Public education, media responsibility, and sentencing reform to act as a deterrence, all play a role in bridging this perception gap. Mortgage fraud must not be seen as a victimless, technical breach ‘of paperwork.’ It is a deliberate act of **economic violence** with wide-reaching consequences, and should be treated as such, both in the courtroom and the court of public opinion.

6.5 Case Examples and Known Precedents

Numerous mortgage fraud cases in both Canada and the United States have set significant precedents, exposing the breadth and complexity of such crimes. These cases not only illustrate common fraud patterns but also reveal systemic vulnerabilities that allowed the schemes to persist.

In Canada, a well-known case is *R. v. Khan* (2011),⁴³ where a Toronto-based real estate lawyer facilitated a multi-million-dollar mortgage fraud ring by falsifying legal documents and collaborating with complicit appraisers and straw buyers. The fraud targeted major financial institutions and involved dozens of transactions over several years. The court emphasized the breach of trust by legal professionals and imposed significant penalties, including disbarment and incarceration.

In the U.S., the 2008 subprime mortgage crisis was partly precipitated by widespread mortgage fraud. The *United States v. Lorraine Brown* (2013) case involved the CEO of a document-processing firm (DocX), who admitted to falsifying over one million mortgage-related documents.⁴⁴ This case highlighted how institutionalized fraud at scale could contribute to a financial collapse. Lorraine Brown was sentenced to five years in prison.

Another landmark case is the *Fremont Investment & Loan* case, where regulators accused the lender of systematically ignoring underwriting standards.⁴⁵ While not criminally prosecuted, the case resulted in a large civil settlement and catalyzed reforms in mortgage oversight.

These cases underscore the importance of strong regulatory oversight, inter-agency cooperation, and proactive fraud detection. They also reflect how forensic accountants,

⁴³ *R. V. Khan (A.)*, (2011) 311 B.C.A.C. 61 (CA). vLex. (2011). <https://ca.vlex.com/vid/r-v-khan-681462809>

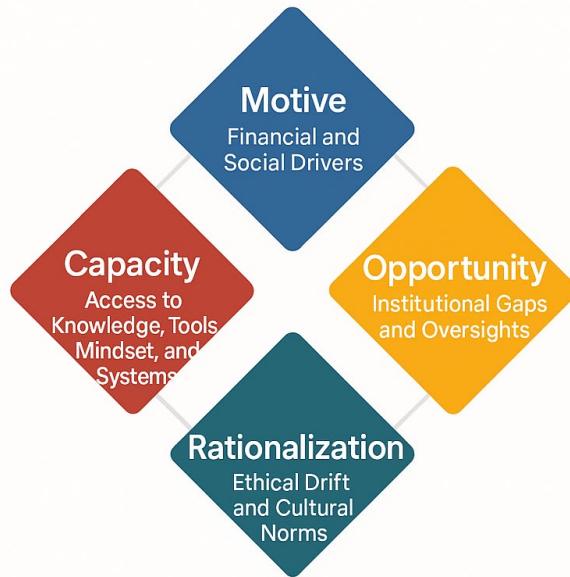
⁴⁴ FBI. (2013, February 19). *Florida-based Lender Processing Services Inc. to pay \$35 million in agreement to resolve criminal fraud violations following guilty plea from subsidiary CEO*. FBI. <https://archives.fbi.gov/archives/jacksonville/press-releases/2013/florida-based-lender-processing-services-inc.-to-pay-35-million-in-agreement-to-resolve-criminal-fraud-violations-following-guilty-plea-from-subsidiary-ceo>

⁴⁵ *Commonwealth v. Fremont Investment & Loan*. Consumer Financial Law : Commonwealth v. Fremont Investment & Loan | H2O. (n.d.). <https://opencasebook.org/casebooks/1212-consumer-financial-law/resources/3.2.4-commonwealth-v-fremont-investment-loan/>

legal professionals, title insurers, registrars and regulators must collaborate to trace funds, reconstruct transactions, and provide expert testimony in complex mortgage fraud litigation.

7. ANALYTICAL FRAME: APPLYING THE MORC 'DIAMOND MODEL'⁴⁶ TO MORTGAGE FRAUD

Analytical Framework: Applying the MORC Diamond Model to Mortgage Fraud



7.1 Motive: Financial and Social Drivers

Motive⁴⁷ is the foundational driver behind mortgage fraud, rooted in both financial pressures and social ambitions. Individuals or groups engaging in fraudulent mortgage

⁴⁶ Wolfe, David T., and Dana R. Hermanson. "The Fraud Diamond: Considering the Four Elements of Fraud." CPA Journal 74.12 (2004): 38-42.

⁴⁷ *Mortgage fraud: Understanding and detecting it.* Ocrolus. (2024, April 17). <https://www.ocrolus.com/fraud-detection/mortgage-fraud/>

behavior often act from a mix of desperation and aspiration. On the personal level, a primary financial motive includes the need to secure housing beyond one's means - commonly referred to as "fraud for shelter." This is prevalent in overheated housing markets like Toronto, Vancouver or Los Angeles, where home prices outpace average earnings. For investors or insiders, the motive may stem from profit-seeking behavior - "fraud for profit" - driven by the promise of quick financial gain through illicit means such as equity skimming or straw buyer schemes.

Social drivers compound these financial motivations. In many cultures, homeownership is considered a core milestone of success and stability. The pressure to attain or maintain this status - exacerbated by social media, peer comparisons, and familial expectations - can lead individuals to rationalize dishonest acts. Furthermore, systemic inequalities such as income disparity and housing inaccessibility may create the perception that fraud is a necessary shortcut to achieving economic equity.

On the institutional side, mortgage fraud may be incentivized by commission-based compensation structures for brokers, appraisers, and lenders, which can foster a culture of prioritizing volume over compliance. Similarly, aggressive lending targets within financial institutions can subtly nudge employees toward unethical behavior, an ethical drift per se.

Understanding motive within the MORC framework emphasizes that mortgage fraud is not only a legal violation but a socio-economic phenomenon. It reflects broader pressures in the housing, financial, and social systems that must be considered in both regulatory responses and prevention strategies. If regulators and industry leaders fail to address these

root motivations, primarily through financial education and systemic reforms, fraud will persist regardless of enforcement measures.

7.2 Opportunity: Institutional Gaps and Oversights

Opportunity⁴⁸ in the context of mortgage fraud refers to the systemic weaknesses and institutional blind spots that make fraudulent activity possible. Unlike motive, which originates from the individual or group's intent, opportunity is created by external conditions - namely, the failure of controls, accountability structures, or oversight mechanisms.

The mortgage lending process involves a multitude of players - for example, mortgage brokers, appraisers, underwriters, notaries, lawyers, title insurers, and regulatory bodies. (See Section 4.1 - Definition and Lifecycle of a Mortgage) This complexity, while designed to safeguard transactions, can paradoxically become a breeding ground for fraud when roles are poorly coordinated. Fraudsters exploit silos between institutions, assuming that one party's oversight will compensate for another's lapse. In practice, this diffusion of responsibility creates space for manipulation - such as fake IDs, inflated appraisals, fake employment documentation, or straw buyer identities.

Digital systems, while efficient, introduce further vulnerability. Automated underwriting models may fail to flag sophisticated forgeries or detect patterns across applications. Additionally, insufficient verification protocols - such as casual checks on income or

⁴⁸ The Detection, Investigation, and Deterrence of Mortgage Loan Fraud Involving Third Parties: A White Paper . (2005, February). 3P MTG Fraud Final revisions. <https://www.ffiiec.gov/sites/default/files/data/reports/3p-mtg-fraud-wp-oct04.pdf>

identity, grant perpetrators the chance to submit multiple fraudulent mortgage applications before detection.

From a regulatory standpoint, inconsistent enforcement and outdated legislation further widen the gap of opportunity. For instance, in Canada, jurisdictional fragmentation across provinces means that mortgage brokers may operate under different licensing standards, creating regulatory arbitrage. In the U.S., federal and state overlaps often lead to enforcement delays and limited information sharing across various agencies.

The MORC framework highlights that opportunity is not a passive element, it is created by human and institutional design. Preventing mortgage fraud thus demands more than criminalizing bad actors; it requires proactive restructuring of workflows, tightening of verification systems, cross-agency collaboration, and real-time data integration. Only by narrowing the window of opportunity can institutions significantly disrupt mortgage fraud ecosystems.

7.3 Rationalization: Ethical Drift and Cultural Norms

Rationalization refers to the cognitive processes individuals or organizations use to justify unethical or illegal behavior.⁴⁹ In the mortgage fraud context, rationalization bridges the gap between a person's self-image and their illicit actions, allowing them to maintain a sense of moral acceptability while engaging in wrongdoing.

⁴⁹ Mintchik, N., & Riley, J. (2019, April 15). *Rationalizing fraud*. The CPA Journal. <https://www.cpajournal.com/2019/04/15/rationalizing-fraud/>

This justification often stems from ethical drift⁵⁰ - the gradual erosion of ethical standards due to repeated exposure to questionable practices. For example, a mortgage broker who witnesses others manipulating borrower income without consequence may begin to see the behavior as normal or necessary to remain competitive. This normalization of deviance is exacerbated by high-pressure environments where results outweigh integrity, fostering a culture in which fraud is rationalized as “helping the client” or “just bending the rules.”

Cultural and societal norms also influence rationalization. In some communities, real estate speculation is so culturally ingrained and celebrated that cutting corners to secure financing is seen as shrewd rather than dishonest. Others may view banks and financial institutions as exploitative, thereby justifying fraud as a form of retribution or levelling the playing field. This “us versus them” mentality can be particularly prominent during times of economic crisis or housing instability, where institutional trust erodes.

At the organizational level, rationalization can manifest in groupthink or a willful blindness to unethical conduct. When leadership - tone at the top - tacitly condones misconduct or fails to address red flags, employees are more likely to silence moral objections and align with the prevailing culture.

Understanding rationalization in the MORC model reveals that preventing fraud is not just about deterrence through punishment. It also requires reshaping ethical narratives, reinforcing accountability, and building cultures that resist justification for misconduct.

⁵⁰ Bailey, S. (2013, May 15). *Business leaders beware: Ethical drift makes standards slip*. Forbes. <https://www.forbes.com/sites/sebastianbailey/2013/05/15/business-leaders-beware-ethical-drift-makes-standards-slip/>

Ethical training, whistleblower protections, and visible consequences for fraud are imperative in addressing this often-overlooked aspect of financial crime.

7.4 Capacity: Access to Knowledge, Tools, Mindset and Systems

Capacity⁵¹ in this MORC model refers to an individual's or organization's ability to execute mortgage fraud, encompassing the knowledge, tools, mindset and systems needed to perpetrate and conceal illicit activity. While motive and opportunity may exist, fraud cannot be committed without sufficient capacity to act.

Fraudsters often possess specialized knowledge of the mortgage lending system, either from prior experience in finance, real estate, or legal services. Insider knowledge allows them to exploit procedural weaknesses with precision - for instance, by knowing how to falsify T4s or manipulate credit reports to meet lending thresholds. Some mortgage fraud schemes are orchestrated by networks involving multiple actors, such as brokers, appraisers, and real estate lawyers, each contributing their expertise to the deception.

Access to digital tools has significantly enhanced the capacity to commit fraud. Document editing software, identity-forging platforms, and deepfake technologies make it easier to produce convincing forgeries. Cybersecurity lapses within brokerages or financial institutions may also allow access to sensitive personal and financial data, which can be reused for synthetic identity fraud or multiple mortgage applications under different names.

Technological advancements in mortgage origination have outpaced the evolution of fraud detection systems. Many lenders rely on automated decision-making tools, which may fail

⁵¹ *Mortgage fraud prevention*. Mortgage Fraud Prevention | Fannie Mae. (n.d.).
<https://singlefamily.fanniemae.com/mortgage-fraud-prevention>

to detect nuanced red flags that a trained human underwriter could identify. Moreover, capacity increases when there is minimal oversight - particularly in self-regulated environments or jurisdictions with weak auditing mechanisms.

Equally critical, but less visible, is the mindset required to engage in mortgage fraud. This includes the emotional detachment necessary to rationalize harming others financially, as well as the intellectual disposition to justify, plan, and execute complex schemes. Fraudsters often exhibit a combination of risk tolerance, moral disengagement, entitlement, and even thrill-seeking behavior. In white-collar contexts, mindset capacity may be cloaked in professional legitimacy, enabling individuals to commit fraud while preserving a façade of ethical compliance.

Understanding capacity is critical for designing effective countermeasures, and in particular preventative measures, to combat mortgage and other white-collar frauds. Regulatory agencies and financial institutions must invest in training, fraud analytics, and data-sharing infrastructure to detect anomalies. Capacity can also be constrained through licensing reforms, background checks, and enhanced due diligence for professionals in mortgage-related roles. Ultimately, reducing the capacity to commit fraud is as essential as addressing motive or opportunity in building a robust defense against mortgage crime.

8. PREVENTIVE, DETECTIVE, AND REMEDIAL MEASURES (PDR)

8.1 Preventive Measures

Preventing mortgage fraud requires a multi-pronged strategy that targets the root causes of misconduct before it materializes. Given the complex, multi-party nature of mortgage transactions, effective prevention entails not only regulatory compliance but also proactive

education, systemic reforms, and the integration of advanced technology. In both Canada and the United States, regulatory bodies have implemented various preventive tools, but gaps remain - particularly as fraudsters exploit the evolving financial technology landscape. Below, we assess three foundational pillars of prevention: compliance infrastructure, financial literacy, and technological safeguards.

8.1.1 Compliance Programs and Broker Licensing

A robust compliance framework is the first line of defense against mortgage fraud. Mandatory licensing and ongoing regulation of mortgage brokers and agents are key components in both Canadian and U.S. systems, though the intensity and uniformity of enforcement vary across provinces and states. In Canada, provincial regulators such as the FSRA enforce licensing requirements, professional conduct codes, and continuing education standards for mortgage professionals.⁵² This helps limit entry into the field to qualified individuals and keeps them updated on evolving fraud trends and best practices.

Similarly, in the United States, the Nationwide Multistate Licensing System (“NMLS”) serves as a centralized platform for licensing and tracking mortgage loan originators.⁵³ Through background checks, testing, and continuing education, the NMLS ensures a degree of professional integrity, though fragmented oversight across states can create vulnerabilities.

⁵² *New licensing requirements – information and resources.* New Licensing Requirements – Information and Resources | Financial Services Regulatory Authority of Ontario. (n.d.). <https://www.fsrao.ca/industry/mortgage-brokering/new-licensing-requirements-transition-information-and-resources#engagement>

⁵³ *NMLS Overview: Vestevich & Associates.* Vestevich & Associates, P.C. (2021, February 20). <https://www.nationwidelicensing.com/nationwide-multistate-licensing-system-nmls-overview/>

Effective compliance programs extend beyond licensing - they involve internal monitoring, ethical training, whistleblower protections, and transaction audits. Financial institutions that employ brokers or offer mortgage services must have well-defined internal controls, particularly for risk-based customer profiling and transaction flagging. However, mere compliance does not eliminate fraud; it must be coupled with a culture of ethical accountability and transparency.

8.1.2 Financial Literacy and Consumer Protection

Mortgage fraud thrives in environments where consumers lack an understanding of the products, risks, and red flags involved in real estate transactions. Enhancing financial literacy is thus a structural preventative measure, one that shifts some control and awareness into the hands of borrowers themselves. Both Canada and the U.S. have acknowledged this, with organizations like the FCAC and the U.S. CFPB playing active roles in educating the public on mortgage terms, interest rates, amortization, and contractual obligations.

Consumer protection laws are a natural extension of this strategy. These include truth-in-lending disclosures, mandatory cooling-off periods, and standardized forms that minimize ambiguity. In Canada, mandatory mortgage disclosures (under the Cost of Borrowing Regulations)⁵⁴ aim to prevent deceptive practices, while U.S. borrowers benefit from the

⁵⁴ Branch, L. S. (2025, May 14). *Consolidated federal laws of Canada, cost of borrowing (trust and loan companies) regulations*. Cost of Borrowing (Trust and Loan Companies) Regulations. <https://laws-lois.justice.gc.ca/eng/regulations/sor-2001-104/FullText.html>

TILA-RESPA Integrated Disclosure Rule (TRID)⁵⁵, which simplifies the loan estimate and closing disclosure process.

However, financial literacy initiatives must be tailored and accessible, particularly for vulnerable demographics such as first-time homebuyers, newcomers to the country, or low-income households. Public-private partnerships, gamified learning tools, and multilingual outreach campaigns are being increasingly adopted to increase the effectiveness of education initiatives.

8.1.3 Technological Controls (KYC, KYP, AI Risk Scoring)

With mortgage fraud growing more sophisticated, preventive efforts have increasingly turned to technological interventions. Know Your Customer (“KYC”) and Know Your Product (“KYP”) protocols are now standard in financial institutions and brokerages. These processes, originally designed for anti-money laundering (“AML”) compliance, have proven valuable in identifying high-risk transactions, misrepresentations, and synthetic identities - especially in a digital mortgage application environment.

Advanced analytics and artificial intelligence (“AI”) are becoming vital in real-time risk profiling and fraud detection. AI can flag anomalies in borrower data, detect document forgeries through image analysis, and assess behavioural patterns inconsistent with legitimate borrowing. For example, a borrower using a new bank (and account) to consummate a mortgage transaction. Why? Machine learning algorithms⁵⁶ also allow

⁵⁵ *TILA-RESPA Integrated Disclosure faqs*. Consumer Financial Protection Bureau. (n.d.).

<https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/tila-respa-integrated-disclosures/tila-respa-integrated-disclosure-faqs/#providing-loan-estimates-to-consumers>

⁵⁶ Fraud detection and machine learning: A proactive approach. Glassbox. (n.d.). <https://www.glassbox.com/blog/fraud-detection-machine-learning/>

systems to improve over time by learning from historical fraud cases and updating scoring models accordingly.

Additionally, digital identity verification tools (e.g., biometric authentication, two-factor ID, and blockchain-based credentials) can prevent **impersonation fraud, a major concern in mortgage refinancing scams**. E-signature verification systems with geolocation and time stamping add further layers of non-repudiation and traceability. These techniques are used in international wire transactions to establish the veracity of a transaction.

In Canada, institutions like Equifax and TransUnion have developed fraud prevention suites that integrate credit data with AI-enhanced anomaly detection. In the U.S., lenders are increasingly using fraud detection services from Fannie Mae and Freddie Mac, including their proprietary EarlyCheck⁵⁷ and Loan Quality Connect⁵⁸ platforms.

Yet, despite these technological advancements, **the human factor remains critical**. Staff training in recognizing fraud typologies, paired with intelligent systems, creates a layered defense model. However, rapid digitalization also introduces new risks, particularly cyber-fraud, which necessitates vigilance through constant upgrades in security architecture and legal compliance frameworks.

8.2 Detective Measures

While preventive strategies aim to stop mortgage fraud before it occurs, detective measures are equally essential in uncovering fraud that evades front-end controls. Detection involves

⁵⁷ *Earlycheck*. EarlyCheck | Fannie Mae. (n.d.). <https://singlefamily.fanniemae.com/applications-technology/earlycheck>

⁵⁸ *Loan Quality Connect*. Loan Quality Connect | Fannie Mae. (n.d.). <https://singlefamily.fanniemae.com/applications-technology/loan-quality-connect>

the identification, investigation, and escalation of suspicious activity within mortgage origination and administration workflows. In both Canada and the United States, evolving regulatory expectations, increasing data availability, and emerging technologies have enabled more sophisticated detection methods. However, the effectiveness of detection still depends on coordination between institutions, regulatory bodies, and law enforcement. Two central components of mortgage fraud detection include internal audits and analytics, as well as inter-agency monitoring and information sharing.

8.2.1 Audits, Data Analytics, and Risk Scoring

One of the most effective methods of detecting mortgage fraud lies in the use of comprehensive audits and forensic reviews. Internal audits, particularly those with forensic elements, are designed not just to confirm policy adherence but to detect anomalies, red flags, and patterns indicative of misconduct. In both regulated financial institutions and non-bank lenders, regular and surprise audits of broker files, underwriting processes, and closing documentation provide critical oversight.

More recently, institutions have moved toward leveraging data analytics and risk-scoring algorithms to enhance fraud detection capabilities. These tools examine large volumes of transactional and behavioural data to flag inconsistencies such as inflated incomes, suspicious appraisals, repeated use of the same notary or solicitor, or rapid refinancing patterns. Predictive models may score borrowers, brokers, or even geographic zones based on historical fraud rates, socio-economic indicators, and behavioural cues.

In Canada, the Canada Mortgage and Housing Corporation employs risk-based models to monitor insured mortgage portfolios for signs of fraud and underwriting abuse. Lenders

use tools like FICO's⁵⁹ Falcon Fraud Manager or SAS fraud detection platforms to layer machine learning over traditional rules-based systems. In the U.S., the use of Fannie Mae's Collateral Underwriter⁶⁰ and Freddie Mac's Loan Product Advisor⁶¹ allows lenders to receive real-time feedback on appraisal risk and loan quality before loan purchase, helping detect fraud early.

Importantly, forensic data analytics is not confined to flagging individual transactions. It also identifies systemic weaknesses, rogue actors, and fraud rings by analyzing network relationships (e.g., repeated appearances of the same real estate agent, appraiser, and borrower combination across seemingly unrelated deals). The development of graph databases and social network analysis has significantly enhanced the ability to uncover collusion-based mortgage frauds, especially those that rely on layered, coordinated deception.

8.2.2 Cross-Agency Monitoring and Reporting

Mortgage fraud detection is significantly enhanced by collaboration among regulatory agencies, financial institutions, and law enforcement. In both Canada and the U.S., detection relies heavily on cross-agency data sharing, mandatory reporting, and real-time monitoring networks. However, the level of integration and cooperation varies.

In Canada, entities such as the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) receive suspicious transaction reports (STRs) from mortgage lenders,

⁵⁹ *Fraud detection with machine learning*. FICO. (n.d.). <https://www.fico.com/en/glossary/fraud-detection-machine-learning>

⁶⁰ Mae, F. (2024, November). Collateral underwriter. <https://singlefamily.fanniemae.com/media/20576/display>

⁶¹ Freddie Mac. (n.d.). <https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-1-docs/freddie-mac-overview.pdf>

brokers, and lawyers when transactions suggest money laundering or fraud. FINTRAC collaborates with the RCMP and provincial regulators to investigate complex cases. Provincial financial regulators (e.g., FSRA in Ontario and BCFSA in British Columbia) also share intelligence with law enforcement on fraudulent licensees or repeated complaints against mortgage professionals.

In the United States, cross-agency monitoring has developed more robustly post-2008. The Financial Crimes Enforcement Network (FinCEN), part of the U.S. Treasury, receives suspicious activity reports (SARs) from mortgage lenders and brokers. These SARs are often triggered by red flags such as straw buyers, falsified income documentation, or unusual wire transfers. Federal bodies such as the FHFA, Federal Bureau of Investigation (“FBI”), and the Department of Housing and Urban Development (“HUD”) work with state regulators and attorney generals through task forces and data-sharing platforms like the Mortgage Fraud Task Force or the National Mortgage Settlement Monitoring Committee.

A vital development in recent years has been the use of regulatory technology (RegTech)⁶² that enables automated compliance reporting and near-instantaneous flagging of suspicious patterns across agencies. In addition, new legal frameworks such as data reciprocity mandates in some U.S. states and Canada's Open Banking initiative (still under development) may soon allow institutions to share borrower and transaction data in ways that prevent repeat offender activity across firms and jurisdictions.

⁶² 20240607 Thl Insights - Regtech whitepaper V4. (n.d.-a). <https://thl.com/wp-content/uploads/2024/05/20240607-THL-Insights-RegTech-Whitepaper-v4.pdf>

Nevertheless, **gaps** in inter-agency coordination persist. Privacy laws, siloed data systems, and jurisdictional conflicts can limit the effectiveness of detection efforts, especially when fraud involves multiple provinces or states, or crosses the U.S.-Canada border. Ongoing improvements to interoperability, harmonized definitions of fraud indicators, and cross-training of investigators are necessary to maximize the effectiveness of detection efforts.

8.3 Remedial Measures

Remedial measures form the final layer of the mortgage fraud response framework - aimed at rectifying harm, restoring institutional integrity, and ensuring justice is served. Unlike preventive or detective efforts, remediation activates after fraud has occurred. It includes the imposition of penalties, restitution efforts, organizational risk response, and support mechanisms for defrauded consumers. In both Canada and the U.S., remedial actions are implemented through legal, regulatory, and institutional channels. However, the efficacy of these measures often depends on timely detection, prosecutorial capacity, and available restitution pathways. (See Appendix C - The Vadim Kats Story) Below, we assess three key facets: enforcement penalties, institutional recovery, and consumer redress.

8.3.1 Civil, Regulatory, and Criminal Penalties

Legal and regulatory penalties serve both punitive and deterrent functions in mortgage fraud remediation. Offenders may face civil liability, regulatory sanctions, and/or criminal prosecution depending on the nature and severity of the fraud.

In Canada, mortgage fraud is prosecuted under various sections of the *Criminal Code* (e.g., s. 380 - fraud over \$5,000; s. 366 - forgery; s. 368 - use of forged documents), with penalties including imprisonment, asset forfeiture, and court-ordered restitution. Civil remedies are

often pursued concurrently by lenders or insurers seeking damages or contractual remedies (e.g., foreclosure, rescission). Regulatory bodies like the FSRA can suspend licenses, issue fines, or ban individuals from the industry altogether.

In the United States, federal statutes such as the *Bank Fraud Statute* (18 U.S.C. §1344), *Wire Fraud Statute* (18 U.S.C. §1343), and the *False Statements to Financial Institutions Act* (18 U.S.C. §1014) form the backbone of criminal prosecutions. Penalties can range from hefty fines to decades-long sentences, especially in large-scale conspiracies. Additionally, the Department of Justice (“DOJ”), FBI, and U.S. Attorneys may pursue civil charges under the *False Claims Act* - particularly in cases involving FHA-insured loans.

Professional regulatory bodies - such as real estate councils, law societies, and appraiser boards - play a parallel role in enforcing standards. Disbarments, de-licensing, and public sanctions not only penalize offenders but also provide reputational redress to the broader profession. However, enforcement disparities between jurisdictions and a lack of prosecutorial resources often lead to inconsistent application of these penalties.

8.3.2 Institutional Recovery Mechanisms

Lenders and insurers rely on structured recovery mechanisms to recoup financial losses caused by mortgage fraud. These mechanisms may include mortgage insurance claims, indemnification clauses, subrogation rights, and litigation against third-party enablers or MFs (e.g., appraisers, brokers, lawyers).

In Canada, CMHC and private insurers such as Genworth and Canada Guaranty cover lenders for losses stemming from default⁶³, including fraud-related claims. These insurers may deny claims where negligence or collusion is found but often initiate recovery actions themselves. Recovery may also occur through claims against errors and omissions (“E&O”) insurance policies held by brokers, lawyers, or appraisers.⁶⁴

In the U.S., the FHA, Fannie Mae, and Freddie Mac play similar indemnification roles, although these entities also have powers to demand loan buybacks from lenders who failed to meet underwriting standards. The securitization market introduces complexity: when fraud is discovered post-securitization, investors may initiate class actions, and issuers may face repurchase obligations.

Risk mitigation also involves strengthening institutional compliance post-fraud. Many firms conduct remediation audits, revise underwriting protocols, or adopt new technologies following incidents. In some cases, internal task forces or independent consultants are appointed to evaluate systemic failures and recommend reforms - akin to post-scandal reviews seen in the banking sector following the 2008 financial crisis.

8.3.3 Support for Affected Consumers

Mortgage fraud can have devastating impacts on consumers, particularly when they are unwitting participants (e.g., identity theft victims) or vulnerable borrowers targeted by

⁶³ *Mortgage insurance*. Genworth. (n.d.). <https://www.genworth.com/products/enact>

⁶⁴ *Real estate agents*. Proliability. (n.d.). <https://www.proliability.com/professional-liability-insurance/real-estate-agents.html>

predatory actors. Remediation must, therefore, extend beyond institutional recovery to include restorative support for affected individuals. Again, the Vadim Kats story resonates.

Victims of fraud may face wrongful foreclosure, ruined credit scores, emotional distress, and lengthy legal battles. In Canada, provincial consumer protection offices, legal aid clinics, and organizations like the Public Interest Advocacy Centre (“PIAC”) help victims understand their rights and navigate recovery. Title insurers also play a remedial role by covering losses arising from title defects or fraudulent property transfers. (See Appendix D - Interview 3: Title Insurance)

In the United States, the Consumer Financial Protection Bureau and state attorneys general offer redress and complaint resolution channels. CFPB enforcement actions may result in financial settlements with restitution funds earmarked for victim compensation. Specialized non-profits and housing advocates (e.g., Legal Services Corporation, National Consumer Law Center) also assist fraud victims with legal representation and credit repair.

Additionally, post-fraud reforms may include borrower rehabilitation programs, loan restructuring options, or moratoria on foreclosure proceedings. These steps aim not just to repair financial harm but also to preserve **homeownership, a core pillar of family wealth and social stability.**

However, significant disparities remain in access to support, especially for low-income or marginalized groups. A comprehensive remedial approach should thus include systemic reform aimed at reducing barriers to justice, increasing transparency in lender practices, and embedding consumer protections throughout the mortgage lifecycle.

9. THE ROLE OF IFAs IN THE MORTGAGE ECOSYSTEM

9.1 Detection and Analysis of Fraudulent Transactions

Investigative Forensic Accountants (IFAs) play a pivotal role in the identification and analysis of fraudulent mortgage transactions. Their contribution extends beyond mere financial auditing; IFAs are trained to dissect complex financial records, trace asset flows, identify inconsistencies in documentation, and connect patterns of behaviour that indicate fraudulent intent. In the context of the mortgage ecosystem, this function is vital due to the multilayered nature of mortgage fraud, which often involves collusion among various parties including borrowers, brokers, appraisers, lawyers, and even institutional insiders.

Fraudulent mortgage activity manifests in diverse forms, from income misrepresentation and inflated property valuations to prevalent identity theft and straw buyer schemes. IFAs are uniquely positioned to detect such anomalies by applying forensic methodologies, including transactional testing, ratio and trend analysis, comparative benchmarking, and forensic data analytics. They investigate the internal controls of lenders and brokers to determine whether systemic weaknesses enabled the fraud to occur, and whether red flags were missed or deliberately ignored.

One of the key tools IFAs leverage is digital forensic technology, which enables the review of vast datasets to identify outliers and suspect transactions. For instance, software-assisted pattern recognition can detect repetitive use of the same lawyer/notary, appraiser, or employer on unrelated mortgage files indicating potential signs of coordinated fraud rings.

Moreover, IFAs employ **Benford's law analysis**⁶⁵, document authentication, and network analysis to uncover synthetic identities or trace relationships between parties who may have conspired to execute fraudulent transactions.

The value of an IFA's detection role is further enhanced by their ability to assess intent, a key legal threshold in establishing fraud. Through interviews, analysis of email correspondence, timeline reconstruction, and expert evaluation of financial motive and gain, IFAs can provide insight into whether a transaction was merely an error or a deliberate misrepresentation.

Furthermore, IFAs assist regulators and law enforcement by preparing investigative reports that summarize findings in a clear, objective, and **evidence-backed manner**. These reports are structured to withstand judicial scrutiny and may include chronologies, annotated mortgage files, and calculations of financial impact. The IFA's neutrality and rigour lend credibility to these investigations, often forming the basis for criminal charges or regulatory action.

In cross-border cases, particularly relevant in the Canadian and U.S. contexts, IFAs contribute by understanding jurisdictional nuances in disclosure obligations, real estate practices, and legal standards for fraud. Their interdisciplinary knowledge bridges accounting, legal, and regulatory domains, allowing for comprehensive and targeted analysis. They provide substantial assistance to legal counsel and the courts/tribunals.

⁶⁵ Frost, J. (2022, October 6). *Benford's Law explained with examples*. Statistics By Jim. <https://statisticsbyjim.com/probability/benfords-law/>

Ultimately, IFAs provide a first line of analytical defense in mortgage fraud investigations. Their ability to synthesize large volumes of data, identify irregularities, and provide evidence of intent positions them as critical actors in both prevention and enforcement within the mortgage ecosystem.

9.2 Mortgage File Reconstruction and Damage Quantification

In cases of suspected mortgage fraud, missing documentation, or incomplete records, IFAs are routinely called upon to reconstruct mortgage files and quantify the resulting damages. These tasks require a deep understanding of both mortgage finance mechanics and forensic investigative techniques. IFAs bring a disciplined and methodical approach to piecing together incomplete transactional histories, identifying errors, and calculating the financial harm incurred by lenders, insurers, or other stakeholders.

Mortgage file reconstruction often begins when institutions face regulatory audits, litigation, or internal reviews and discover that original loan files are deficient, either through negligence or intentional document tampering. IFAs approach reconstruction by first analyzing available source data, e.g., bank statements, wire transfer records, title documents, appraisals, insurance forms, and communication logs. From there, they recreate the original timeline and transactional flow of the mortgage process, cross-referencing disclosed data with third-party verifications (e.g., income tax returns, employment letters, MLS data) to validate or refute the integrity of the mortgage origination.

This forensic reconstruction is not merely clerical, it is investigative in nature. IFAs examine signature mismatches, duplicate files, and metadata embedded in digital

documents to detect forgery or document backdating. If multiple mortgage loans are under review, the IFA may conduct a comparative file analysis, looking for and identifying patterns of systemic misrepresentation across a portfolio.

In parallel, IFAs are tasked with damage quantification, a key function in litigation or recovery proceedings. Damage calculations depend on the type of fraud and the affected party. In the case of lender loss due to foreclosure on a fraudulently underwritten loan, the IFA may calculate damages as the difference between the outstanding mortgage balance and the net recovery on the sale of the property. Where mortgage default insurance is involved, IFAs quantify the insurer's liability exposure based on risk-adjusted loss models. For investors in mortgage-backed securities, IFAs may calculate loss of capital, interest, and opportunity cost based on cash flow disruptions from loan defaults.

IFAs may also develop counterfactual models, i.e., financial scenarios presenting 'what if' scenarios showing what would have happened absent the fraudulent conduct. These models often incorporate assumptions based on macroeconomic conditions, property appreciation rates, and borrower default probabilities. Courts and regulators rely on these models to understand the scope of loss, allocate liability, and assess punitive or compensatory damages.

Further, IFAs assess consequential losses, including reputational damage to institutions, increased insurance premiums, or costs associated with regulatory penalties. In many cases, their findings support claims for restitution or subrogation (common with title insurers) and are used by legal counsel to negotiate settlements or support litigation claims.

Mortgage file reconstruction and damage quantification are central to the role of IFAs in the mortgage ecosystem. Their skillset enables institutions to establish a clear evidentiary record, pursue recoveries, and implement stronger controls to mitigate future exposure.

9.3 Expert Testimony and Litigation Support

IFAs serve an essential function in legal proceedings involving mortgage fraud through their role as expert witnesses and providers of litigation support. As specialists with deep knowledge of financial systems, mortgage mechanics, fraud typologies, and loss quantification, IFAs are uniquely positioned to bridge the gap between complex financial data and the evidentiary requirements of the courts. Their testimony is often a 'linchpin' in civil litigation, regulatory enforcement, or criminal prosecution.

The value of an IFA begins well before they take the stand. During the pre-litigation and discovery phases, they assist counsel by analyzing financial records, preparing interrogatory responses, and identifying inconsistencies or evidence that may prove or disprove allegations of fraud; often useful in promoting early resolution. Their work product, typically culminating in the form of an expert report, is prepared in compliance with rules of evidence (e.g., Rule 53 in Ontario; Rule 26 in the U.S. Federal Rules of Civil Procedure), ensuring objectivity, clarity, and most importantly admissibility.

An IFA's expert report may include:

- A narrative summary of the mortgage transaction(s) in question.
- Chronologies of key events and financial flows.

- Detailed forensic analysis of fraud indicators (e.g., income misstatements, asset misrepresentations, inflated appraisals).
- Damage quantification models with explicit assumptions and sensitivity analyses.
- Commentary on institutional controls, systemic vulnerabilities, or failures in due diligence.

What distinguishes an IFA's expert opinion from general financial analysis is its independence and defensibility. The IFA must not act as an advocate for the party retaining them; instead, as an imperative, they must provide an unbiased, professional opinion grounded in evidence and consistent with recognized methodologies. This neutrality often enhances their credibility before the trier of fact - be it a judge, jury, arbitrator, or tribunal.

In the courtroom, IFAs are called upon to deliver oral testimony that distills complex financial and technical findings into accessible, persuasive narratives. Effective IFAs are not only technically proficient but also adept communicators who can maintain composure under rigorous cross-examination, clarify accounting principles, and illustrate financial concepts using analogies, exhibits, and visual aids. This skill is particularly vital in mortgage fraud cases, where fraud schemes may span multiple jurisdictions, involve layers of documentation, and feature coordinated efforts between various actors.

IFAs also play a support role behind the scenes. During trial preparation, they assist legal teams with the formulation of questions for opposing experts, assessment of settlement proposals, and critique of counter-expert opinions. This adversarial testing helps sharpen the litigation strategy and ensures the reliability of expert input presented to the court.

A unique advantage IFAs bring to mortgage fraud litigation is their fluency in both accounting standards and real estate finance practices. They understand underwriting protocols, loan-to-value calculations, amortization models, and securitization structures - insights often beyond the scope of general accountants or auditors. As a result, they can contextualize their analysis within the broader risk environment, demonstrating not only what went wrong but why it was unreasonable or negligent.

Furthermore, in large-scale fraud cases, IFAs may be retained on a broader mandate to perform sampling and extrapolation, enabling statistical modelling of losses across hundreds or even thousands of mortgage files. Courts rely heavily on such extrapolated analysis when individualized damages are impractical to assess.

IFAs enhance the integrity and precision of mortgage fraud litigation through their analytical rigour, evidentiary discipline, and clear communication. Their involvement often transforms a complex financial case into a compelling legal narrative, making them indispensable to both plaintiffs and defendants seeking to understand, prove, or refute claims of mortgage fraud.

9.4 Advisory Role in Policy Reform and Risk Management

Beyond detection, reconstruction, and litigation, **IFAs play a vital role in shaping policy reform and enhancing risk management practices across the mortgage ecosystem.** Their granular understanding of how frauds are perpetrated, rooted in real-case experience, positions them as invaluable advisors to both public regulators and private institutions aiming to strengthen system resilience.

IFAs are increasingly retained by regulatory bodies, mortgage insurers, financial institutions, and industry associations to provide **evidence-based guidance**⁶⁶ on closing systemic gaps in mortgage origination, underwriting, and securitization. Their advisory contributions are typically focused on two domains: (1) policy development and reform and (2) enterprise risk management (ERM) within financial institutions.⁶⁷

Policy Development and Reform

IFAs contribute to mortgage policy reform by offering insight into the behavioural and structural dimensions of fraud. Their input often informs legislative initiatives, administrative guidelines, and regulatory compliance frameworks. In Canada, this could involve collaboration with bodies such as the OSFI, the FINTRAC, or provincial mortgage broker regulators. In the U.S., IFAs may advise entities like the CFPB, the FHFA, or state-level Departments of Financial Services.

Their expertise supports:

- The design of more stringent broker licensing and background checks.
- Enhanced disclosure requirements during the mortgage origination process.
- Implementation of independent third-party appraisals or **dual valuation models**.
- Structuring of whistleblower protections to encourage internal reporting.
- Mandatory fraud risk assessments as part of lending compliance audits.

⁶⁶ Trehan, A., & Shah, M. (2024). *An impact of forensic accounting training on strengthening banking fraud controls*. Educational Administration: Theory and Practice, 30(1), 767–775.

<https://kuey.net/index.php/kuey/article/download/5494/3855/11388>

⁶⁷ Adeniran, I. A., Abhulimen, A. O., Obiki-Osafile, A. N., Osundare, O. S., Agu, E. E., & Efunniyi, C. P. (n.d.). *Strategic risk management in financial institutions: Ensuring robust regulatory compliance*. Finance & Accounting Research Journal. <https://fepbl.com/index.php/farj/article/view/1508>

One notable area of contribution is the **standardization of data collection and reporting** in mortgage transactions. IFAs advocate for uniform data fields, integrated audit trails, and the use of blockchain-based records or AI-enabled verification tools to create tamper-proof and transparent lending processes.

Furthermore, IFAs provide impact analysis on proposed reforms, using past fraud cases to model how new rules would have altered the outcome or mitigated the damage. This feedback loop ensures that reforms are both pragmatic and targeted.

Risk Management Consulting

On the institutional side, IFAs advise banks, credit unions, and mortgage insurers on strengthening their internal control environments and reducing exposure to fraud risk.

Their services typically include:

- Fraud risk assessments across loan portfolios.
- Reviews of underwriting policies and their alignment with actual risk appetite.
- Gap analyses of ‘KYC’ (Know Your Client) and ‘KYP’ (Know Your Product) compliance.
- Simulated fraud testing or red-team⁶⁸ scenarios to stress test systems.
- Design of internal fraud detection protocols, including early warning indicators.

Crucially, IFAs also promote a culture of ethical compliance, identifying points where incentive structures, compensation schemes, or internal reporting lines may create

⁶⁸ Anderson, E., Holdsworth, J., & Kosinski, M. (2025, April 15). *What is red teaming?*. IBM. <https://www.ibm.com/think/topics/red-teaming>

conditions conducive to ethical drift. They often recommend the integration of forensic audit procedures into routine quality assurance or loan review cycles.

Their advisory role may extend into training and capacity-building. IFAs are frequently engaged to deliver workshops or continuing education to underwriters, risk officers, brokers, and even board directors on mortgage fraud risks, red flag identification, and response protocols. By enhancing institutional awareness, they reduce the risk of collusion and improve first-line defenses.

Finally, IFAs may contribute to the design of technology solutions. Their forensic insight supports developers and compliance teams in tailoring AI models, risk scoring systems, and transaction monitoring algorithms that reflect actual fraud behaviours seen in practice - not just theoretical risk scenarios.

The advisory function of IFAs is instrumental in transforming lessons learned from mortgage fraud into proactive measures. By working at the intersection of financial analysis, regulatory policy, and operational risk, IFAs are key architects of a more secure, transparent, and accountable mortgage system; a system that resists exploitation while safeguarding the integrity of financial markets.

10. SYSTEMIC CHALLENGES AND OPPORTUNITIES FOR REFORM

10.1 Coordination Gaps Across Institutions and Jurisdictions

The **structural fragmentation** of the mortgage lending ecosystem is one of the most significant systemic challenges facing the fight against mortgage fraud. Regulatory oversight is spread across multiple institutions - federal, provincial/state, and municipal -

each with its own mandate, authority, and enforcement protocols. In both Canada and the United States, this siloed approach has led to major gaps in regulatory coordination, resulting in duplicated efforts, regulatory arbitrage, and, ultimately, diminished fraud detection capacity.

In Canada, the mortgage industry is overseen by a combination of federal agencies like the OSFI, provincial regulators such as the FSRA, and financial intelligence units like FINTRAC. However, these bodies often operate without a formalized, unified reporting structure. Similarly, in the United States, the CFPB, state licensing boards HUD, and even local district attorney offices may all oversee aspects of mortgage lending or enforcement, often with overlapping jurisdictions.

The issue is further exacerbated when fraud schemes cross provincial or state lines, as investigative momentum can be lost due to unclear lines of authority or lack of mutual recognition between regulatory frameworks. Offenders have learned to exploit these jurisdictional gaps by shopping for the weakest enforcement environments or shifting operations to regions with slower regulatory response times. Furthermore, there is no unified repository or national registry of fraudulent actors or questionable transactions, meaning that known offenders can continue operating undetected in neighbouring jurisdictions.

To address these coordination failures, a multi-tiered reform approach is necessary. First, a national interagency mortgage fraud task force should be established composed of representatives from all relevant institutions including financial regulators, law enforcement, title insurers, land title offices, and consumer protection agencies. This task

force would serve not only as a coordination hub for real-time intelligence and enforcement but also as a policy-shaping entity. Second, there is an urgent need for a centralized, shared digital registry that logs confirmed and suspected fraud cases, disciplinary actions, and flagged mortgage applications, accessible to vetted stakeholders across all jurisdictions.

Additionally, legislative amendments could be introduced to require mandatory information sharing between provincial/state regulators and federal bodies, with penalties for non-compliance. Interjurisdictional Memoranda of Understanding (MOUs) should clearly delineate responsibilities, timelines for enforcement, and conflict-resolution protocols. International cooperation also becomes essential as money laundering and foreign capital flows increasingly intersect with mortgage fraud; Canada and the U.S. should strengthen cross-border data exchange, potentially under frameworks similar to the Financial Action Task Force (FATF) guidelines.⁶⁹

Only by closing these coordination gaps can systemic fraud risk be properly managed. Stronger institutional collaboration, standardized enforcement triggers, and shared data infrastructure will allow regulatory bodies to detect, investigate, and prosecute mortgage fraud with far greater efficiency and consistency.

10.2 Lack of Standardization in Risk Controls

In an industry that spans many diverse actors - banks, credit unions, private lenders, mortgage brokers, appraisers, title insurers - the absence of uniform risk controls is both a technical and ethical liability. Mortgage fraud often arises not from the total absence of

⁶⁹ FATF & APG. (2016, June). Canada. <https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/MER-Canada-2016.pdf>

controls but from the inconsistent application of those controls across different actors and transaction stages. Without standardization, fraudsters can identify and exploit weaker links in the chain, whether it be a poorly trained broker, a lax lender, or a complicit appraiser.

For example, while federally regulated financial institutions in Canada are held to OSFI's B-20 underwriting standards, private and provincially regulated lenders may have looser interpretations of income verification, debt service ratios, or appraised property values. Similarly, while large lenders often deploy automated decision engines to identify anomalous patterns, small and mid-sized institutions may rely on manual, discretionary decision-making subject to human error or manipulation.

The lack of standardization extends beyond underwriting. Appraisal methodologies vary widely, as do the requirements for legal due diligence, title verification, and insurance coverage. In some provinces, legal professionals play a central role in certifying mortgage documents; in others, notaries (such as in Quebec) or independent title agents fill this role, sometimes with less oversight or qualification. This patchwork opens the door for inflated valuations, identity falsification, and straw buyer schemes.

To mitigate these vulnerabilities, regulators and industry leaders must develop and enforce a comprehensive, pan-jurisdictional framework for mortgage risk control. This should include:

- A standardized set of due diligence protocols applicable to all mortgage originators, regardless of institutional size or charter.

- A national code of conduct for mortgage professionals, with enforceable penalties for non-compliance and revocable credentials.
- A central repository of verified documents (e.g., tax returns, T4s, employment letters, bank statements) that lenders can access to cross-check borrower claims.
- Implementation of a ‘three-line defense’ model that includes self-assessment, compliance verification, and external audits tailored to the mortgage context.

Further, technology should be leveraged to reinforce these standards. AI-powered tools can analyze thousands of variables across mortgage applications to flag inconsistencies, while blockchain can validate document authenticity and transaction timelines. However, these solutions are only as effective as their adoption rate. Therefore, regulators must provide incentives such as tax breaks, compliance credits, or public recognition, for institutions that achieve full alignment with risk control best practices.

Ultimately, the standardization of risk controls represents not just a compliance issue but a systemic safeguard that enhances integrity, investor confidence, and consumer trust in the mortgage lending system.

10.3 Technology Adoption and Data Sharing

The mortgage industry remains at an inflection point in terms of technological modernization. While financial technology (“FinTech”) and regulatory technology (RegTech) solutions are rapidly transforming adjacent sectors like payments and wealth management, the mortgage lending system continues to operate under legacy frameworks that are ill-equipped to combat today’s sophisticated fraud schemes. The consequences are both operational and systemic: fragmented databases, inconsistent identity verification, and

inadequate cross-party communication not only prolong the mortgage approval process but leave the system vulnerable to exploitation.

Many institutions still rely on paper-based documentation or scanned PDFs, limiting their ability to extract and analyze data efficiently. While large banks may invest in optical character recognition (“OCR”), robotic process automation (“RPA”), and AI-driven fraud analytics, smaller lenders and brokers often lack the capital and/or expertise to integrate these tools. Furthermore, even when digital tools are deployed, the absence of interoperability standards means that systems across different institutions often cannot communicate or reconcile data with one another.

This technological fragmentation creates a serious blind spot in the detection and deterrence of fraud. For example, mortgage applications submitted to multiple lenders may not be cross-checked for duplication or inconsistency. Similarly, appraisals, income documentation, and credit assessments often remain isolated in proprietary systems, making it difficult to track manipulation or patterns of abuse across the ecosystem.

Reform must begin with the establishment of **national data-sharing frameworks**. These frameworks should standardize data fields, formats, and security protocols across all stakeholders such as lenders, brokers, appraisers, land registries, regulators, and law enforcement. Application Programming Interfaces (“APIs”) should be mandated to enable seamless, real-time exchange of mortgage application data, fraud alerts, disciplinary histories, and appraisal records. Blockchain solutions can also play a significant role in creating immutable audit trails for property records, ownership transfers, and document submissions.

Second, governments and regulators should actively support the digitization of public records, particularly title registries, lien databases, and land transfer records. In many jurisdictions, outdated public records infrastructure hinders verification and introduces ambiguity, particularly in complex or high-volume lending environments.

Third, regulatory ‘sandboxes’ should be created specifically for mortgage innovation, allowing FinTech startups, lenders, and oversight bodies to experiment with new fraud prevention technologies under supervised, low-risk conditions. These could include AI-based behavioural scoring models, biometric authentication for borrower identity, and smart contract integration for automated underwriting enforcement.

Finally, regulators must ensure cybersecurity and privacy protections are built into all digital reform initiatives. Any centralization of mortgage data must comply with applicable data protection laws, such as Canada’s PIPEDA⁷⁰ or the U.S.’s Gramm-Leach-Bliley Act,⁷¹ with appropriate encryption, access control, and audit mechanisms in place.

If adopted at scale, technology can shift the mortgage ecosystem from a reactive, paper-heavy environment to a **proactive, intelligence-driven system** that anticipates risk, protects consumers, and streamlines institutional processes. But doing so requires bold leadership, sustained investment, and a willingness to break down the institutional silos that have long stifled innovation in the sector.

⁷⁰ *Understanding PIPEDA: Compliance requirements, scope, and enforcement in Canada.* <https://secureprivacy.ai/>. (2024, May 30). <https://secureprivacy.ai/blog/what-is-pipeda>

⁷¹ Nguyen, S. T. (2025, February 6). *Gramm-Leach-Bliley Act*. Federal Trade Commission. <https://www.ftc.gov/business-guidance/privacy-security/gramm-leach-bliley-act>

10.4 Recommendations for Policy and System Improvements

To ensure a more fraud-resilient, transparent, and efficient mortgage ecosystem, a set of **strategic policy and system reforms must be enacted**. These reforms should be designed not as piecemeal interventions but as a comprehensive modernization blueprint addressing structural weaknesses, regulatory inconsistencies, and technological inertia.

Recommendations include:

1. Establish a National Mortgage Fraud and Risk Intelligence Bureau

Create a centralized authority responsible for monitoring, analyzing, and reporting on mortgage-related fraud and systemic vulnerabilities. This bureau would collect data from lenders, brokers, law enforcement, appraisers, title insurers, and land registrars producing trend reports, issuing alerts, and maintaining a national registry of violations. In Canada, this could fall under the jurisdiction of a strengthened FINTRAC or be created as a new independent oversight body.

2. Mandate Uniform Licensing and Oversight for All Mortgage Professionals

Introduce a harmonized licensing regime across all provinces (or U.S. states) that includes standardized education, ethics certification, and continuing professional development. Regulatory oversight should include both proactive audits and reactive enforcement mechanisms, with public disclosure of infractions to promote accountability. Dual licensing for brokers and lenders should be reevaluated to prevent conflicts of interest.

3. Introduce ‘Red Flag’ Protocols for High-Risk Transactions

Institutions should be required to flag transactions meeting certain fraud-risk thresholds (e.g., unusually high loan-to-value ratios, unverifiable income sources, rapid property flips) for secondary review by internal compliance teams or third-party forensic experts. These protocols would create early detection pressure points and reduce institutional liability.

4. Expand The Role of Investigative Forensic Accountants (IFAs)

Incorporate IFAs as formal participants in regulatory and litigation proceedings involving suspected mortgage fraud. Their expertise in tracing funds, quantifying damages, and reconstructing complex financial transactions would strengthen both enforcement outcomes and civil recovery efforts. IFAs could also be embedded within major lenders as internal fraud consultants.

5. Reform Disclosure and Borrower Education Requirements

Simplify mortgage disclosure documents to promote transparency and informed decision-making among borrowers. Require that brokers and lenders disclose the full commission structure, any conflicts of interest, and the comparative cost of borrowing. Launch national campaigns to improve consumer financial literacy with respect to mortgage risks, fraud schemes, and rights under the law.

6. Incentivize Innovation and Technology Adoption

Provide grants or tax incentives to institutions that invest in advanced fraud prevention technology, such as real-time transaction monitoring, machine learning anomaly detection,

and **biometric ID verification**. Encourage industry participation in public-private RegTech partnerships aimed at standardizing technology protocols.

7. Strengthen Legal Consequences for Institutional Negligence

Legislation should impose meaningful penalties not only for fraud, but for institutional negligence that enables it. Financial institutions and brokerages that repeatedly fail audits or demonstrate willful blindness to fraud schemes should face escalating fines, license suspensions, or criminal referrals for executives.

Ultimately, these reforms would collectively contribute to a more robust, accountable, and innovation-ready mortgage system; a system capable of preserving market integrity, protecting consumers, and minimizing systemic risk in the face of increasingly sophisticated fraudulent threats.

11. INTERVIEW FINDINGS

11.1 Overview of Interviewees and Rationale for Selection

To gain a comprehensive and multi-perspective understanding of mortgage fraud primarily focused on Canada, several interviews were conducted with professionals and stakeholders who play distinct roles within the mortgage transaction ecosystem. These included a Real Estate Lawyer / Mortgage Lawyer, whose frontline involvement in property closings and mortgage documentation provided legal insights into procedural vulnerabilities, fraud detection, and systemic weaknesses. A Real Estate Developer (U.S.) was interviewed to understand how mortgage fraud - especially at the buyer level - impacts project financing, community valuation, and sales integrity from a development standpoint. A Title Insurer

was selected for its unique vantage point in underwriting and post-fraud resolution, offering insights into institutional safeguards and risk mitigation. A Lender was included to explore the role of credit evaluation, fraud screening, and financial controls during the mortgage origination process. Finally, a Mortgage Fraud Perpetrator and Victims were considered to humanize the issue at either end of a scheme and to highlight the practical and emotional consequences of mortgage fraud. Together, these discussions provide a 360-degree view of mortgage fraud, bridging the legal, institutional, developer, regulatory, and personal dimensions of the issue.

11.2 Key Themes and Insights from Interviewees (See Appendix D – Interview Questionnaires and Answers)

11.2.1 Key Themes and Insights from Interview 1: Real Estate/Mtge Lawyer

Overview of Interviewee and Rationale

This interview was conducted with a senior **Real Estate Lawyer** with extensive experience in property transactions, including purchases, sales, and refinancings. The rationale for selecting this professional was to gain a legal practitioner's perspective on the detection, deterrence, and procedural handling of mortgage fraud, especially during the closing and title transfer stages.

Key Themes and Insights

- 1. Red Flags in Transactions:** Suspicious direction of funds, facilitator-controlled deals, and use of blank cheques are common indicators.
- 2. Procedural Loopholes:** The lack of uniform due diligence standards and increasing reliance on remote execution opens space for fraud.

3. **Technology's Dual Role:** While tools like 'Teraview' increase protection, electronic signatures and remote meetings present new fraud vectors.
4. **Lawyer Capacity & Constraints:** Many lawyers are under-resourced, undertrained, and underpaid, limiting their ability to detect fraud thoroughly.
5. **Importance of Title Insurance:** Title insurers proactively investigate borrower identity and legal representation to reduce exposure.
6. **Successful Prevention Example:** Legal and registry intervention prevented a fraudulent mortgage and sale using corporate impersonation.

Summary

The Real Estate Lawyer highlighted that mortgage fraud is relatively rare in their practice due to established client relationships. However, when it does occur, it typically involves surplus mortgage proceeds being redirected, use of unverified third parties, or identity theft during refinancing. The lawyer emphasized that current legal frameworks are only moderately effective due to inconsistent procedural expectations and insufficient deterrents for digital fraud.

Due diligence practices include verifying client identity, reviewing discharge statements, and checking title histories. In suspected fraud cases, the lawyer coordinates with land registrars, title insurers, and law enforcement. While systems like **Teraview** help reduce risk, the increasing use of remote meetings and electronic documents introduces new vulnerabilities. [“[Teraview](#) is your secure one-stop solution to accessing data in the Government of Ontario's land records database, and is used by lawyers, paralegals, title searchers, search houses, title insurers, financial institutions and government.”]

A real-world example was shared where fraud was prevented by identifying changes in corporate registry information and blocking access to title. The lawyer underscored the need for better professional training, time allocations, and regulatory uniformity to prevent fraud more effectively.

Overview of Interviewee and Rationale

This interview was conducted with a **Mortgage Lawyer** (the Real Estate Lawyer above) who regularly advises clients on mortgage structuring, compliance, and closings. The rationale for including this discipline was to understand how legal professionals specializing in mortgage-specific files detect fraud and what gaps they observe in regulatory and practical processes.

Key Themes and Insights

1. **Most Common Fraud Type:** Identity fraud remains the most widespread threat.
2. **Regulatory Weaknesses:** Virtual onboarding without in-person verification is the most abused practice.
3. **Systemic Gaps in Due Diligence:** Lawyers are often only required to verify basic documents unless specifically mandated by lenders.
4. **Nature of Misrepresentation:** Borrowers commonly falsify income, fabricate employment, or manipulate credit profiles and appraisals.
5. **Challenges in Prosecution:** Fraudsters often vanish, and victims carry the burden of proof in civil claims.

6. **Disproportionate Harm:** Owners are often more impacted than lenders, especially if title insurance is absent.
7. **Policy Reform Suggestions:** Central fraud registries, higher penalties, unified verification, and better education across professions.
8. **Role of Legal Professionals:** Lawyers must lead systemic reform due to their unique gatekeeping role.

Summary

The Mortgage Lawyer stressed that identity fraud is the most prevalent issue in today's lending environment, often paired with falsified documents. Procedural gaps allow lawyers to act without ever meeting clients face-to-face, a practice the lawyer believes should be eliminated. Fraudsters forge employment letters, inflate credit profiles, and sometimes rely on complicit brokers and appraisers.

Legal involvement in verification is limited to items mandated by the lender, such as identity or outstanding debts. Fraud cases are difficult to prosecute due to disappearing perpetrators and the difficulty of proving collusion. Homeowners often bear the cost, even when uninvolved in the fraud, and recovery options like title insurance or claims through the Land Registry Assurance Fund are complex and uncertain.

The lawyer advocated for stronger systemic checks, centralized enforcement bodies, and mandatory verification protocols. Legal professionals, as transaction gatekeepers, must lead the charge in reforming processes to reduce fraud risk.

11.2.2 Key Themes and Insights from Interview 2: Developer

Overview of Interviewee and Rationale

This interview involved a seasoned **Real Estate Developer** (U.S.) with extensive experience in residential housing projects, though not directly engaged in retail sales. The rationale for this interview was to understand the indirect exposure developers face from mortgage fraud, particularly how fraudulent activity among buyers affects project financing, pricing, and community reputation.

Key Themes and Insights

1. **Fraud Risks for Developers:** Includes buyer default post-closing and falsified primary residence declarations.
2. **Retail Misrepresentation Effects:** Rental-heavy communities depress value and alienate genuine homebuyers.
3. **Developer Safeguards:** Use of layered verification, non-refundable deposits, and coordinated vetting across brokers, lenders, and title representatives.
4. **Bulk Sales Concerns:** Investor-driven purchases elevate risk (such as in Toronto or Vancouver); failed closings lead to unsold inventory and lender scrutiny.
5. **Fraud Red Flags:** Anonymous visitors, unverifiable financial claims, and opaque investor funding sources.
6. **Industry Apathy:** Some developers may knowingly overlook fraud to maintain revenue.
7. **Regulatory & Technological Trade-offs:** Post-recession standards improved oversight, but identity theft and document falsification are more sophisticated.

8. **Coordination is Key:** Early and frequent interaction among all transaction parties can prevent fraud before it materializes.

Summary

The developer confirmed encountering numerous fraud indicators, including falsified income, fabricated buyers (straw buyers), and misrepresented residency intentions. While individual cases haven't significantly disrupted financing, bulk purchases with questionable backing pose serious threats to inventory management and pricing stability.

To mitigate risk, the developer requires multiple deposits, upfront payments, and rigorous pre-closing coordination with lenders and title representatives. They noted that fraudulent buyers disguised as end-users who turn out to be renters could erode community appeal and diminish the long-term value of a planned community development.

Despite improved vetting processes post-2008, the developer acknowledged that fraud still occurs, especially when financial pressures or bonuses tempt brokers and some developers to 'look the other way.' The developer advocated for more documentation, repeated questioning, and tighter front-end verification as deterrents, recognizing that the fraudster's biggest risk is being asked the same question twice.

11.2.3 Key Themes and Insights from Interview 3: Title Insurer

Overview of Interviewee and Rationale

This interview was based principally on corporate materials provided by Stewart Title Guaranty Company (Canada), one of the major players in the title insurance industry. The rationale for selecting a title insurer was to gain perspective on how title insurance

functions as both a preventive and remedial mechanism in cases of mortgage and title fraud, and to understand how title insurers coordinate with legal and regulatory professionals when fraud occurs.

Key Themes and Insights

1. **Title Insurance as Safety Net:** While title insurance provides relief from title defects post-fraud, it does not eliminate the trauma or damage experienced by victims. Prevention is emphasized as the preferred objective.
2. **Common Fraud Types:** Identity impersonation, fraudulent mortgage registrations, and unauthorized title transfers remain the most prevalent forms of mortgage-related title fraud.
3. **Delayed Detection:** Fraud is often discovered during refinancing, through lender notices, insurance mailouts, or post-factum insurer alerts. Delays of up to a year are common, especially in cases involving organized crime.
4. **Red Flags and Lawyer Alerts:** Behavioural cues (e.g., evasiveness, refusal to meet), transactional anomalies (vacant properties, mortgage-free titles), and mismatched professionals are frequent warning signs.
5. **Collaborative Investigation Protocols:** Investigations require cooperation across homeowners, lawyers, brokers, lenders, and law enforcement, with insurers playing a central coordinating role.

6. **Verification Practices:** The use of tools like Treefort (where Stewart Title is vested) for multi-factor identity verification helps underwriters and lawyers vet participants. Refusal to comply with verification is itself a red flag.
7. **Limits of Coverage:** Title insurance policies do not cover future risks, zoning violations, or structural issues. A common misconception is that it provides blanket protection, which it does not.
8. **Legal Professional Responsibility:** Legal professionals remain the gatekeepers of real estate integrity and face increasing pressure to detect fraud even after lenders and brokers have processed a deal.
9. **Case Example:** A fraudulent refinancing attempt on mortgage-free vacant land was thwarted when document inconsistencies and ID checks revealed impersonation of the true property owner.
10. **National Reforms:** Updates to client identification rules across multiple law societies, including Ontario, Alberta, B.C., and Nova Scotia, along with FINTRAC and FSRAO policy enhancements, signal a nationwide effort to tighten fraud prevention.

Summary

Insights revealed that while title insurance plays an important role in absorbing losses due to fraud, its real value lies in **fraud prevention through advanced risk screening and collaboration**. The most damaging frauds involve impersonation, particularly with vacant or mortgage-free properties, and often go undetected until refinancing or unrelated communications trigger a deeper look.

Title insurers emphasize that fraud is increasingly perpetrated by organized networks that move rapidly across regions and often leave victims unaware until significant damage has occurred. Indicators of fraud can be subtle and behavioural, such as a client avoiding direct contact or pushing for urgency in processing. Internally, verification teams are trained to spot anomalies, review ID validity, and escalate for legal review when necessary.

The industry has moved toward stronger cooperation with legal professionals, who are often the last line of defense. Tools such as digital ID verification platforms are becoming standard, and legal associations across Canada are updating client identification protocols. A notable prevention case highlighted how one insurer's proactive measures stopped a fraudulent refinancing by confirming that the ID presented was invalid, and as the borrower had no legitimate debts - the rationale for funding needs - the 'story' didn't hold up.

The emphasis is that fraud prevention is a **shared responsibility** among insurers, lawyers, lenders, and regulators. The material provided reinforced that while insurance provides essential protection, stronger front-end safeguards, education, and regulatory alignment are key to limiting fraud in Canada's mortgage and title systems.

11.2.4 Key Themes and Insights from Interview 4: Lender

Overview of Interviewee and Rationale

This interview was conducted with Sam Duong, an experienced **Institutional Mortgage Lender** with over 15 years at a Tier 1 - Canadian bank (CIBC), operating in southwestern Ontario. Sam's practice is strictly limited to clients within the bank's ecosystem, providing a controlled perspective on internal lending standards. The rationale for selecting an institutional lender was to examine how Tier 1 banks identify, assess, and manage

mortgage fraud risk at the underwriting level, and how their procedures differ from those in broker-driven or private lending environments.

Key Themes and Insights

1. **Primary Fraud Risks:** False ID and fabricated income documentation remain the most common forms of fraud encountered at the institutional level.
2. **Robust Pre-Adjudication Screening:** Lenders apply layered ID and income verification, including in-person contact validation, document audits, and escalation to security/legal when anomalies arise.
3. **Limited Use of AI:** While automation is growing, manual, experience-based reviews dominate the fraud detection process in day-to-day operations.
4. **Broker Risk Displacement:** Tier 1 lenders shun external mortgage brokers due to misaligned incentives; their internal incentive systems focus on client integrity and application quality.
5. **Credit Risk & Scoring:** Credit scoring acts as a filtering tool, but overreliance on third-party services (like Equifax) creates risk; hence, internal scoring systems are in development.
6. **System Gaps and Exploits:** Fraudsters may collude with lawyers or property owners to bypass checks, exploiting the limits of the lender's access to transaction-level detail.
7. **Post-Funding Protocol:** If fraud is detected post-funding, the file is escalated to internal security and legal, and frontline staff have no further role beyond cooperation.

8. **Evolving Risk Landscape:** Remote onboarding and increasing AML scrutiny have reshaped lender procedures, especially for foreign-funded and highly leveraged deals.
9. **Policy Recommendations:** Sam advocates for a **confidential, centralized fraud intelligence-sharing system** across institutions to stay ahead of evolving schemes.

Summary

Sam Duong outlined the multi-layered fraud detection mechanisms used by institutional lenders, including rigorous ID and income checks, document scrutiny, and escalation procedures. He described how internal departments such as security, legal, and a newly created Remote ID Verification team are activated when concerns arise. Fraud involving fabricated documents (e.g., falsified CRA NOAs, T4s, or employment letters) remains a challenge, though rare in his practice due to long-standing client relationships and strict controls.

Mortgage brokers, while prevalent in Tier 2 lending, are avoided in his institution to reduce exposure to misaligned incentives and low-quality applications. He confirmed that while credit scoring tools like Equifax and TransUnion support pre-screening, they're part of a broader risk matrix and cannot be solely relied upon.

Sam noted that fraud losses have prompted more rigorous due diligence, even if they are not quantifiably large at his level. He warned that government-backed programs (e.g., CMHC-insured loans) are susceptible to abuse due to their higher tolerance for leverage. Ultimately, he recommended greater **institutional collaboration through real-time**,

confidential data sharing, arguing that fraud prevention requires collective intelligence to counteract increasingly sophisticated schemes.

11.2.5 Key Themes and Insights from Interview 5: Fraud - Perpetrator

Overview of Interviewee and Rationale

This interview was conducted with a former senior executive of a trust company that was implicated in a series of mortgage and financial fraud incidents. The company's misconduct stemmed from weak internal oversight and systemic vulnerabilities in the mortgage registration and lending process. The rationale for this interview was to obtain a unique perspective from someone directly involved in institutional mortgage fraud, offering insight into how systemic weaknesses were exploited and what safeguards were missing.

Key Themes and Insights

1. The exploitation of signing authority and corporate procedures allowed fraudulent loans and registrations to proceed without verification.
2. The lack of professional oversight and the use of non-licensed participants enabled the company to avoid scrutiny during transactions.
3. Victims' documents and communications were intercepted due to shared office infrastructure, undermining transparency and consent.
4. Legal and regulatory responses were slow and ineffective; political pressure, not legal mechanisms, created accountability.

5. Financial consequences for the company were minimal, and a private settlement prevented formal restitution or penalties.
6. Cultural failure, lack of internal controls, and normalized unethical behavior enabled the conduct to escalate.
7. Identity impersonation, mail diversion, and insider assistance were tools used in the fraud, rather than forged documents.
8. Preventative measures include mandatory use of licensed professionals, stronger identity verification, and a culture of ethics and internal accountability.

Summary

The former executive revealed that the mortgage fraud was enabled by exploiting gaps in corporate governance and transaction oversight. The use of improperly verified signing authority, combined with the absence of professionals such as lawyers or brokers, allowed the company to register loans without triggering red flags. Communication control within a shared office environment enabled the company to intercept critical information and obscure fraudulent activities.

Authorities became involved only after the harm was done, and victims were left without meaningful recourse. A private settlement ensured the perpetrators avoided formal accountability. Professionally, the interviewee experienced long-term reputational damage and was forced to rebuild his career in the private sector.

The interviewee emphasized that while modern systems have improved, especially in verifying authority in corporate real estate transactions, stronger controls and ethical

leadership remain essential. Institutional culture, more than technology or compliance protocols alone, was identified as the most important defense against fraud.

11.2.6 Key Themes and Insights from Interview 6: Fraud - Victims

Overview of Interviewee and Rationale

This material is drawn on the publicly documented experience of Stephanie and Derrick (not their real names), a Toronto couple whose Etobicoke home was fraudulently sold while they were living overseas for work purposes. Their story, widely covered by **CBC Investigates**, exemplifies the real-life impact of organized mortgage and title fraud on unsuspecting homeowners. Although pseudonyms are used to protect their identity (due to ongoing identity theft concerns), their case is a compelling and high-profile example of system failure across legal, real estate, and regulatory domains. The rationale for selecting this case was to provide a **first-hand victim perspective** on the emotional, financial, and procedural consequences of mortgage fraud - humanizing a problem that is often discussed in technical or legal terms.

Key Themes and Insights

- 1. Failure of Gatekeepers:** Multiple professionals (lawyers, lenders, realtors) failed to detect inconsistencies, including misspelled names and the use of falsified identification documents.
- 2. Delayed Discovery:** The fraud was discovered only when the couple noticed their mortgage had disappeared from their online banking portal - long after the transaction had closed, the culprits vanished, and the property had been reoccupied.

3. **Organized Crime Tactics:** Fraudsters impersonated the owners, capitalized on their absence, and used forged IDs to complete a title transfer and subsequent sale.
4. **Systemic Weaknesses:** The real estate system relied on a single piece of government-issued photo ID, which can be easily forged, and no stakeholder caught the error despite multiple red flags.
5. **Emotional and Financial Trauma:** The victims experienced lasting psychological stress and loss of trust in institutions. Although title insurance ultimately provided financial relief, it did not compensate for undervaluation, trauma, or legal burden.
6. **Call for Reform:**
 - a. Stronger ID verification, including **multi-factor authentication**;
 - b. Mandatory use of enhanced ID protocols by lawyers, brokers, and realtors;
 - c. Legislative change to protect homeowners from systemic negligence.
7. **Multi-Factor Verification as a Solution:** Experts cited in the case emphasized the need for combined verification methods (photo ID, credit reports, cell phone number tracing/authentication) to catch fraudsters before transactions close.

Summary

Stephanie and Derrick's home was fraudulently sold by organized criminals who used impersonation, forged identification, and procedural gaps in the real estate transaction system to transfer ownership without the true owners' knowledge. The fraud came to light only after they noticed their mortgage had been mysteriously discharged - by that time, someone else had taken legal possession of their home.

Despite the presence of multiple actors in the transaction - including lawyers, realtors, and a property management company - no one identified the fraud. The buyers used incorrectly spelled names throughout the process and presented ID that, although falsified, was accepted without further verification. The victims' experience revealed that no single entity in the transaction chain had a duty to authenticate identity beyond surface-level checks.

Although title insurance ultimately helped protect them financially, the couple highlighted how that protection is limited, particularly in cases where the home is sold below market value or when homeowners suffer long-term stress. Their case has become a rallying point for demands for reform across Canada's real estate sector, including stronger ID verification rules, enhanced oversight from law societies and regulatory bodies, and tighter integration between real estate and financial institutions.

Their story stands as a cautionary example of how even sophisticated systems can fail when human diligence, institutional accountability, and regulatory safeguards are insufficient or absent.

12. CONCLUSION

12.1 Summary of Findings

This research set out to illuminate the anatomy of mortgage fraud in Canada, framed against U.S. experience, and to evaluate how investigative and forensic accounting can strengthen systemic resilience. The evidence gathered across documentary analysis, stakeholder interviews, and comparative regulatory review reveals three overarching insights.

First, mortgage fraud persists not because controls are absent, but because they are unevenly distributed and too often reactive. The MORC Diamond Model demonstrated how ample opportunity is created by disjointed oversight, patchwork licensing regimes, and lagging technology adoption; capacity is amplified by professional insiders who possess both the technical know-how and the institutional access to manipulate documentation flows; motive is fueled by an overheated housing culture that positions homeownership or quick profit as a social imperative; and, rationalization thrives where ethical drift is normalised by commission-driven compensation and low prosecution risk.

Second, although Canada's mortgage architecture is widely regarded as conservative, the comparative analysis shows that prudential strength alone does not inoculate the system against sophisticated schemes. Centralised underwriting guidance (OSFI's Guideline B-20) and government-backed securitisation (e.g., CMHC) have mitigated the scale of losses observed in the 2008 U.S. crisis, yet interview insights - particularly from title insurers and institutional lenders - confirm a rise in identity impersonation, document fabrication, and straw-buyer collusion that bypasses traditional credit metrics. The rapid shift toward remote onboarding during the post-COVID era has expanded digital attack surfaces faster than verification standards have evolved.

Third, preventive, detective, and remedial safeguards remain heavily siloed. Preventive measures concentrate on front-end KYC/KYP compliance, yet lack consistent depth across provinces and between bank and non-bank channels. Detective measures depend on fragmented data feeds such as FINTRAC STRs, provincial broker audits, internal lender analytics - with insufficient reciprocity. Remedial mechanisms, while bolstered by title insurance and insurer subrogation rights, still leave victims navigating protracted

restitution pathways and fail to embed strong deterrence when negligence rather than intent underpins control failures.

12.2 Answer to Research Questions

1. What structural and regulatory weaknesses allow mortgage fraud to persist?

The study finds that the key structural weakness is a federal-provincial duality that produces regulatory arbitrage opportunities. Unlike the United States, where fragmentation is horizontal across multiple federal agencies, Canada's fragmentation is vertical: federal guidance governs banks, while private lenders, brokers, and lawyers fall under disparate provincial mandates. This differential creates blind spots exploited by fraudsters who pivot to the least-regulated niche - most visibly private, high-LTV refinancing and alternative lending conduits.

2. Who are the key participants, and how do they enable or prevent fraud?

While borrowers and front-line brokers often occupy the narrative foreground, the research demonstrates that professional gatekeepers, namely lawyers, appraisers, underwriters, and title insurers, determine fraud velocity. Their vigilance (or absence thereof) can either choke a scheme at inception or unwittingly legitimise it through 'rubber-stamp' compliance. Interviews underscored that the most decisive factor is organisational culture reinforced by incentive alignment: institutions that reward transaction quality over volume report markedly lower fraud incidence.

3. How effective are existing enforcement mechanisms in Canada versus the U.S.?

Canada's centralised mortgage default insurance model imposes a disciplined underwriting floor; however, enforcement is diffused once a loan exits the federally regulated perimeter.

In contrast, U.S. federal task-forces wield robust civil and criminal tools (E.g., False Claims Act, FIRREA - Financial Institutions Reform, Recovery, and Enforcement Act) but are hampered by overlapping jurisdictions and litigation latency. Empirically, both systems secure high-profile convictions only after losses crystallise, suggesting neither has effectively addressed the timeliness dilemma essential to deterrence.

4. What role can Investigative and Forensic Accountants (“IFAs”) play?

The project confirms that IFAs are uniquely equipped to bridge data silos, quantify loss trajectories, and articulate behavioural patterns in courtroom-ready narratives. Their application of forensic analytics such as Benford distributions, social-network mapping, and file reconstruction, uncovers fraud rings invisible to rule-based monitoring. Moreover, when embedded in risk-management units, IFAs translate post-mortem insights into proactive controls, thereby shifting organisational posture from detection to pre-emption.

5. Which policies and reforms could most effectively enhance systemic integrity?

The evidence coalesces around five priorities:

- 1) **National Mortgage Fraud Intelligence Bureau** to centralise data, issue cross-institution alerts, and maintain a public registry of disciplinary actions.
- 2) **Uniform licensing and continuing-education standards** for all mortgage intermediaries, anchored by mandatory identity-verification protocols that blend biometric, credit-file, and device-based authentication.
- 3) **Shared API infrastructure** that allows lenders, insurers, and regulators to exchange granular application and appraisal data in real time, reducing duplication and shortening investigative cycles.

- 4) **Risk-weighted capital or insurance surcharges** for institutions with repeated control failures, creating economic disincentives for complacency.
- 5) **Legislated whistle-blower protections and incentives** tailored to the mortgage sector, recognising that insider testimony remains the fastest vector to dismantle complex schemes.

12.3 Limitations and Areas for Further Study

The mixed-methods design delivered depth of perspective but inevitably narrowed statistical generalisability. Interviews, while candid, represent purposive sampling; perspectives of community credit unions, Indigenous land registries, and fintech-only lenders merit dedicated exploration. The quantitative analysis relied on publicly accessible enforcement data; confidential STR/SAR datasets could enable more precise trend modelling.

Three research frontiers emerge. First, the impact of open banking on fraud vectors: as Canada finalises its framework, scholars should test whether consumer-permissioned data flows tighten or inadvertently loosen control environments. Second, appraisal risk in an era of automated valuation models: machine-learning opacity may obscure new manipulation techniques requiring forensic visibility. Third, the psychological contract between consumers and institutions: understanding how perceptions of housing unattainability shape moral thresholds could inform behavioural nudges and targeted literacy campaigns.

In synthesising historical patterns, contemporary vulnerabilities, and emergent technologies, this paper affirms that mortgage fraud is neither an episodic aberration nor an intractable inevitability. It is a dynamic, adaptive threat that exploits fissures where

financial ambition outpaces ethical and regulatory discipline. Strengthening Canada's mortgage ecosystem therefore hinges not on episodic enforcement surges, but on an integrated architecture that aligns incentives, harnesses forensic intelligence, and embeds a culture of proactive integrity.

12.4 Personal Reflections

Stepping back from the statutory fragments and spreadsheets, I am reminded that mortgage fraud is not a victimless abstraction. Behind every falsified paystub or cloned identity sits a family at risk of losing generational wealth, and behind every missed red flag stands a professional with a choice to probe or to look away. In decades of due-diligence driven forensic practice, I have learned that systems rarely collapse from a single spectacular breach; instead, they erode through a thousand small concessions to haste, habit, and hubris. The task before us is, therefore, cultural as much as it is technical. We can install the finest analytics and mandate the toughest rules, yet without an ethic that prizes diligence over deal flow the next scheme will already be germinating. I remain optimistic, however, that the convergence of forensic analytics, open data, and a revitalised gatekeeper culture can tilt the balance. The fraudster's playbook will certainly evolve, but so too will the resolve and ingenuity of those committed to protecting the integrity of home ownership: the cornerstone of financial security for most Canadians.

13. APPENDICES

Appendix A: Author's Profile Re: Mortgage Lending

Appendix B: Sample Mortgage Commitment Agreement (redacted)

Appendix C: Mortgage Fraud Case - The Vadim Kats Story

Appendix D: Interview Questionnaires and Answers

Appendix E: Glossary of Terms

APPENDIX A – Author’s Profile Re: Mortgage Lending

Frank Salvati has a varied background, initially practicing as a professional accountant, then migrating to industry. While in industry during the late 1980s and early 1990s he honed his skills further in real property - specifically ‘workouts’ - which had formed the bulk of his clientele as a practicing professional.

The Commercial Real Estate crisis of the early 1990s proved costly for the financial and real estate development communities in North America. While several banks failed in the United States, the larger, diversified banks of Canada did not fail, but suffered through drastic reductions in credit and significant losses in loan portfolios. [Copyright 2017 by the Governing Council of the University of Toronto:

https://www.rotman.utoronto.ca/media/rotman/content-assets/documents/cbh--cdn-biz-his/CBH-Commercial-Real-Estate-Crisis-Research-Paper_Feb2017.pdf]

Of particular note, Frank worked on a large mixed use development portfolio for a Schedule 1- Canadian bank. The portfolio consisted of commercial, industrial and raw land real property assets. The portfolio was mired in a host of mortgages registered on each of the properties, further complicated by cross-collateralization on the balance of the portfolio’s real property assets. The matters were resolved to the satisfaction of the lender and borrower, which set the stage for Frank as an active participant in real property lending.

By the mid-90s Frank had created, and continues to manage, a private mortgage portfolio.

While the mortgage portfolio experiences above average mortgage returns, scaling the business remains a challenge due to a fragmented, disjointed property registration process. Transaction velocity presents risks that are antithetical to secured lending. Much of what is contained in this project is relatable to his firsthand experiences as a mortgage lender.

APPENDIX B - Mortgage Commitment

LOAN COMMITMENT

July 25, 2022

‘John Doe’
123 Anyplace Road
Fenwick, Ontario, Canada
A1B-2C3

RE: LOAN IN THE PRINCIPAL AMOUNT OF \$280,000.00 from XXXXXXXX Ontario Limited to ‘John Doe’

Dear ‘John Doe’,

XXXXXX ONTARIO LIMITED (the “Lender” or “Mortgagee”) is pleased to offer to you, as Borrower a commitment (the “Commitment”) to provide a mortgage loan in the principal sum of **TWO HUNDRED EIGHTY THOUSAND (\$280,000.00) DOLLARS** upon the security and subject to the following terms and conditions as hereinafter set out in this Commitment (the “Loan”).

- 1. BORROWER or MORTGAGOR:** ‘John Doe’ (referred to as “Borrower” or “Mortgagor”).
- 2. PURPOSE:** The purpose of the Loan is to refinance the residential property municipally known as **123 Anyplace Road, Fenwick, Ontario, Canada, A1B-2C3**.
- 3. SECURED PROPERTY:** **123 Anyplace Road, Fenwick, Ontario, Canada, A1B-2C3** legally described as **██████████** (the “Property” or “property”), in addition to any other securities as hereinafter set out. The Borrower warrants and represents to the Lender that the Property is the principal residence of the Borrower and shall remain as such throughout the term of the Loan. The Borrower further warrants and represents that he is not a spouse and will not be a spouse as at the time of the advance of the Loan Amount (as hereinafter defined).
- 4. LOAN AMOUNT:** The Borrower agrees to borrow, and the Lender agrees to lend to the Borrower the principal sum of **TWO HUNDRED EIGHTY THOUSAND (\$280,000.00) DOLLARS** (the “Loan Amount”). The Loan Amount to be advanced to the Borrower in this Commitment shall not exceed 50% of the fair market value of the Property.

5. **COMMITMENT FEE:** The Borrower acknowledges and agrees that concurrently upon acceptance of this Commitment, the Lender shall be deemed to have earned its non-refundable commitment fee in the sum of **\$4,200.00** representing compensation to the Lender for entering into this Commitment with the Borrower (hereinafter defined as the “**Commitment Fee**”). This Commitment Fee is in addition to the costs expended by the Lender in order for its representatives, appraisers, consultants and agents to obtain, review and study the documentation pertaining to this transaction, including without limitation, the review of appraisals, credit reports, financial statements and other data and physical inspections of the subject matter of the Security Documents, which costs shall be payable by the Borrower, in addition to any further costs as set out herein. The Commitment Fee is also in addition to the Borrower’s obligation to pay all legal costs of this transaction as may be charged by the Lender’s solicitors which the Borrower covenants and agrees to pay forthwith, by bank certified cheque or bank draft, upon demand by the Lender. The Borrower further acknowledges and agrees that the Commitment Fee shall represent compensation to the Lender only in respect of the original term of the Loan stipulated herein, and any extension or renewal of the Loan for any period beyond such original term shall be subject to such additional fees as may be agreed between the Borrower and the Lender, provided it is understood and agreed that the Lender shall be under no obligation to renew or extend the term of this Loan. Upon acceptance of this Commitment, the Borrower shall concurrently pay the sum of **\$4,200.00** on account of the Commitment Fee to the Lender. The Borrower agrees that the Commitment Fee payable to the Lender in this Commitment shall be deemed earned by the Lender and payable by the Borrower concurrently upon acceptance of this Commitment by the parties hereto.

6. **INTEREST RATE OF LOAN:** SIX and ONE HALF (6.5%) per cent per annum.

7. **PAYMENT OF LOAN:** The Loan shall be payable and calculated monthly, not in advance, **INTEREST ONLY**. The Borrower shall provide a series of post-dated cheques on account and in the amount of the interest only payments for the entire term of the Loan to be provided by the Borrower to the Lender prior to the advance of the Loan Amount.

8. **AMORTIZATION:** Not Applicable.

9. **CLOSING DATE:** **August XX, 2022.**

10. **TERM OF LOAN:** This Loan will mature in **EIGHTEEN (18) months** from Interest Adjustment Date (as hereinafter defined). The Interest Adjustment Date shall mean the first of the month immediately following the month in which the advance of the Loan Amount is made. The Borrower shall pay on closing the interest calculated from the date of the advance to the end of the month in which the advance of the Loan Amount is made, which the Lender shall deduct from the first advance herein. Interest shall be due and payable monthly, not in advance, on the first day of each and every month during the term and shall be calculated and compounded monthly on each payment.

11. HOLDBACK FROM ADVANCE OF THE LOAN AMOUNT

The Borrower/Mortgagor covenants and agrees as follows:

- (i) The Lender/Mortgagee shall deduct from the advance of the Loan Amount as contemplated pursuant to this Commitment and withhold throughout the term of the Commitment and the Security, including without limitation, the First Mortgage, an amount equal to Thirty-Five Thousand (**\$35,000.00**) Dollars, as security for the due, faithful and timely performance by the Borrower/Mortgagor, of the terms, covenants and agreements of this Commitment, the Security, including without limitation, the First Mortgage, including without limitation, the payment of all interest payments owing and accruing pursuant to the First Mortgage (the “**Security Holdback**”). Notwithstanding the foregoing, the Lender/Mortgagee shall have the right, acting in its sole and absolute discretion to apply any part or parts of the Security Holdback towards any or all amounts owing by the Borrower/Mortgagor to the Lender/Mortgagee, at any time or times and from time to time, including without limitation, interest payments, costs, expenses and/or charges required to be made by the Borrower/Mortgagor to the Lender/Mortgagee pursuant to the First Mortgage;
- (ii) Notwithstanding that the Security Holdback, as expressly set out in **subsection 11 (i)** above, is deducted and withheld from the advance of the Loan Amount pursuant to this Commitment by the Lender/Mortgagee, the Borrower/Mortgagor covenants and agrees that the Loan Amount shall be deemed fully advanced to the Borrower/Mortgagor notwithstanding anything to the contrary in this Commitment, the Security, including without limitation, the First Mortgage, and/or at law. Without limiting the foregoing and notwithstanding anything to the contrary in this Commitment, the Security, including without limitation, the First Mortgage, and/or at law, the Security Holdback shall be deemed, for the purposes in this Commitment, the Security, including without limitation, the First Mortgage, as fully advanced by the Lender/Mortgagee to the Borrower/Mortgagor under this Commitment, the Security, including without limitation, the First Mortgage, and shall not, at any time, be interpreted as unadvanced monies or as payment by the Borrower/Mortgagor of any amount or amounts owing and/or accruing pursuant to this Commitment and/or the Security, including without limitation, the First Mortgage, unless and until applied by the Lender/Mortgagee towards any such amount or amounts owing by the Borrower/Mortgagor to the Lender/Mortgagee pursuant to this Commitment and/or the Security, including without limitation, the First Mortgage, as expressly set out in **subsection 11 (i)** above, and, any such claims, demands and/or defenses that may be available by or to the Borrower/Mortgagor with respect thereto are hereby deemed irrevocably waived by the Borrower/Mortgagor.

12. **PREPAYMENT PRIVILEGE:** The Mortgagor shall have the privilege of prepaying the whole of the principal amount outstanding on any payment date, without penalty, notice or bonus.

13. **SECURITY:** As security for the Loan (referred to as the “**Security**”), the following documents, instruments, agreements and other assurances (collectively referred to as the

“**Security Documents**”) shall be delivered to the Lender prior to the advance of the Loan Amount under the Loan, which shall be in form and substance satisfactory to the Lender and its solicitors, acting in their respective sole and absolute discretion:

- (a) **FIRST** freehold mortgage and charge of the Property (sometimes referred to as the “**First Mortgage**”), free and clear of any and all title defects, mortgages, pledges, hypothecs, security interests, assignments, executions, deemed trusts, liens, options, charges, conditional sales or similar agreements, encumbrances or rights or claims of any person or entity of any kind or nature whatsoever (referred to throughout this Commitment as the “**Encumbrances**”); and,
- (b) Such other documents, instruments, agreements, things or security required or contemplated by this Commitment or as counsel for the Lender may advise, acting in his sole and absolute discretion, having regard to this type of transaction, including without limitation, incorporating into the First Mortgage the Dye and Durham Standard Charge Terms #200033 and/or such other standard charge terms as the Lender may require acting in its sole and absolute discretion.

14. PRECONDITIONS TO FUNDING: In addition to all other requirements as set out in this Commitment, including without limitation, as set out and without limiting what is contained in Schedule “A”, at least five (5) days prior to the advance of the Loan Amount, the Borrower shall, at his own expense, provide the following to the Lender:

- (a) **Appraisal:** TBD.
- (b) **Zoning and Municipal Agreements, etc.:** Confirmation that the Borrower is in compliance with the terms and conditions of the subdivision agreement and site plan agreement and zoning with respect to the Property herein named to be secured by this Loan; and,
- (c) **Site Inspection:** Satisfactory site inspection of the Property by the Lender.

The Lender shall not be obligated to advance the Loan Amount or any part thereof to the Borrower pursuant to this Commitment in the event the Lender is not satisfied, acting in the Lender’s sole, and absolute discretion, with any of the information or documentation provided to the Lender as required by this Commitment, including without limitation as per Section 13 or in Schedule “A” attached hereto or, in the event the Loan Amount to be advanced to the Borrower in this Commitment exceeds 50% of the fair market value of the Property, as determined by the Lender acting in its sole and absolute discretion, and in the case of any of the foregoing events, the Lender shall have the right to terminate this Commitment and be released and discharged from its obligations pursuant thereto, provided however, the Borrower shall not be relieved from his obligations in this Commitment, including without limitation, the obligation to pay for all the expenses, costs and fees of the Lender as set out in this Commitment, including without limitation, the Commitment Fee.

15. ADVANCE: The Lender shall not be obliged to make any advance under the Loan unless and until the Borrower has complied with all of the terms and conditions of this

Commitment. The Lender shall be entitled and is hereby authorized to deduct from any advance of the Loan Amount, the amount due or to become due for interest from the date of such advance to the Interest Adjustment Date or next regular payment date, and the aggregate of all amounts owing for accrued and unpaid interest, fees of any nature or kind whatsoever, including without limitation, the Commitment Fee, appraisal fees, consultant's fees and the legal fees and disbursements of the Lender's solicitors, and harmonized sales taxes ("HST") with respect thereto and all other amounts costs and expenses incurred by the Lender in connection with this Commitment.

16. EXPIRY AND CANCELLATION: The Lender shall have the right at its sole option to terminate this Commitment or to demand repayment of the Loan or to add to or modify the conditions as set out herein if the conditions of this Loan are not met or if there is, in the opinion of the Lender or its solicitors, acting in their respective sole and absolute discretion, a change in the risk, the value of the Security or the covenants required herein, or if any of the representations and/or warranties by the Borrower is not correct, or, is false or misleading, or if the security has been impaired. The Lender shall also have the right, at its option, to terminate this Commitment if:

- (a) The Security Documents are not executed, delivered and registered, where necessary, by the **XXth day of August, 2022**; or,
- (b) The advance of Loan Amount is not made by the **XXth day of August, 2022**.

17. ACCEPTANCE: This Commitment shall remain open for acceptance by the Borrower in the manner herein specified, **until 6:00 p.m. on the XXth day of July, 2022**, after which time, if not accepted, the Lender's offer to finance set forth in this Commitment shall be null and void and the Lender shall be under no further obligation to extend or consider financing for the Borrower and the Lender shall not be responsible for any direct or indirect costs or damages incurred by the Borrower in consequence thereof. Acceptance of this Commitment shall have been properly completed when this Commitment, duly executed by the Borrower and the Commitment Fee, if required, on the date of acceptance of this Commitment, are received by the Lender on or before the date and time herein stipulated.

18. SCHEDULES: The following attached Schedule forms a part of this Commitment: Schedule "A"- Lender's Standard Terms and Conditions.

Yours very truly,

XXXXXX ONTARIO LIMITED

Per: _____
FRANK SALVATI **Lender**
I have authority to bind the Corporation.

THE UNDERSIGNED hereby accepts the terms and conditions of this Commitment and covenants and agrees to duly carry out and perform each of its terms and conditions.

SIGNED, SEALED AND DELIVERED

THIS _____ DAY OF July, 2022.

‘John Doe’ - Borrower

SCHEDULE “A”

Lender’s Standard Terms and Conditions

1. **CONDITIONS OF ADVANCE:** The Lender shall not be obliged to make any advance under the Loan unless, at Borrower’s sole expense, the Borrower shall have complied with each and every of the following conditions and the Lender has received and approved the following matters, things and documents (duly executed, where applicable) and in form and substance satisfactory to the Lender and its solicitors, acting in their respective sole and absolute discretion, effective as of the date of the advance of the Loan Amount:
 - (a) the Borrower shall have complied with each and every term of this Commitment;
 - (b) the Security and Security Documents, duly executed;
 - (c) Certified Copies of all property insurance policies issued to the Borrower to reflect the loss payable to the Lender, as first mortgagee of the Property for full replacement value or for a value no less than the principal amount of the First Mortgage and, containing the standard mortgage clauses;
 - (d) Until the Security has been registered as a first charge and priority against the Property, free and clear of any and all Encumbrances and satisfactory to the Lender and its solicitors, acting in their respective sole and absolute discretion;
 - (e) Until all existing charges of or security interests in the assets and undertakings of the Borrower, including without limitation, with respect to the Property, are discharged;
 - (f) If there occurs any alteration or change in the financial position of the Borrower, including without limitation, any damage or change to the Property, including without limitation, with respect to the buildings or other structures situate on the Property or, the presence of any Hazardous Substance under, in, upon or about the Property or lands in

the vicinity of the Property, including without limitation, the buildings or other structures situate on the Property;

- (g) the Lender shall be in possession of a legal opinion from the Borrower's solicitors, in form and substance satisfactory to the Lender, acting in its sole and absolute discretion, attesting to (in addition to all of the ordinary content of such letters of opinion), all of the following: that all Security and the Security Documents contemplated herein has been duly implemented and that the First Mortgage shall constitute a first charge/mortgage on the title to the Property, and, that the title to the Property shall be good and marketable and free and clear of any and all Encumbrances, easements, rights-of way, agreements, restrictions, save and except those which have been expressly set out in this Commitment and save for such other encumbrances which are determined by and in the sole and absolute discretion of the Lender and its solicitors as not materially adversely affecting the Lender's Security;
- (h) that the Borrower has the right to enter into the Loan transaction and all related security and the same have been duly authorized, approved and executed by the Borrower; and
- (i) that at the time of disbursement of the Loan Amount under the Loan there are no construction liens, registered or unregistered, against or affecting, directly or indirectly, the Property.
- (j) Debt-Service Capability – The Borrower shall have demonstrated, to the Lender's satisfaction, a clear ability to meet any debt service obligations that the Borrower will be required to satisfy while any part of the Loan is outstanding.
- (k) the aggregate of the Loan Amount does not exceed 50% of the fair market value of the Property.
- (l) the entire Property is vacant and there are no tenants, licensees or other occupants at the Property.
- (m) Survey – As soon as is reasonably possible, but in any event and determined by the Lender sufficiently in advance of the advance of the Loan Amount so as to enable the Lender's solicitors to obtain clearance of same from the relevant municipal authorities, the Borrower shall provide the Lender with an up-to-date survey of the Property (also sometimes referred to as the "**Real Property**") prepared by a licensed Ontario Land Surveyor, and showing:
 - (i) all encroachments, easements and rights-of-way;
 - the dimensions, boundaries and square footages of the Real Property;
 - (ii) the location of all buildings and improvements on the Real Property, their dimensions and distance from the lot lines;
 - (iii) particulars of adjacent properties and access to and from public highways; and
 - (iv) all other particulars required to be shown on a survey prepared for lands situated in the Province of Ontario.

The survey must bear the name, address and signature of the surveyor, his official seal and license number (if any, or both), the date of the survey and have thereon a Surveyor's Certificate in the form and content required for surveys prepared in the Province of Ontario;

2. INSURANCE

- (a) The Borrower shall insure, keep and maintain property insurance on the Property against fire and all other perils or risks which may impair the value of such properties and to protect the Lender's interest at all times, with standard mortgage lender loss payable clause, for the Guaranteed Full Replacement Cost of the Property and on such other terms and conditions as the Lender requires acting in its sole and absolute discretion. The Borrower shall provide a Certificate of Insurance and such other evidence as may be required by the Lender certifying and confirming the foregoing terms of property insurance for the Property prior to the advance of the Loan Amount under the Loan. The Lender shall at all times be shown as first loss payee under each such policy of property insurance for the Property.
- (b) The Borrower shall pay for the costs of title insurance, containing such terms as required by the Lender, acting in its sole and absolute discretion, and that the Lender shall obtain from a title insurance company as determined by the Lender, in its sole and absolute discretion, for the Property.
- (d) The Borrower shall pay for the costs of any and all other insurance coverage which the Lender may in its sole and absolute discretion require from time to time.

Not less than five (5) days prior to registration of the Security Documents, where necessary, as set out in the Commitment, the Borrower shall provide to the Lender original or certified copies of the insurance policies for the Real Property and with respect to the commercial policy of insurance of the Borrower. In the event that the insurance policies are not available, the Lender may accept binders or certificates of insurance, in form acceptable to the Lender, in its sole and absolute discretion, on closing.

All policies for the Real Property shall name the Lender as a Named Insured or Additional Named Insured or loss payee, as aforesaid, and shall include the complete municipal address and legal description of the Property. All property insurance policies for Real Property shall show: (i) the Lender as First Mortgagee and Loss Payee and contain a standard mortgage clause in favour of the Mortgagee with respect to the Real Property. All liability policies for the Real Property shall name the Mortgagee as an Additional Insured and shall include all legal liability to the extent insurable and imposed upon the Mortgagee and including all court costs, fees and expenses of legal counsel. Evidence of property insurance on a CSIO from ACORD Form 25s, or their equivalents, are not acceptable due to the limitation in the wording as to its efficacy and the restrictive cancellation provisions.

All policies of insurance of the Real Property and otherwise, or binders or certificates of insurance used as interim evidence thereof, shall provide a minimum of (30) days prior written notice to the Mortgagee of any change or cancellation.

All policies of insurance for the Real Property and the business of the Borrower are subject to review and approval by an independent insurance consultant retained by the Lender for such purpose, and the Borrower agrees to pay for the consultant's fees in connection with such review. This shall include any subsequent change in any insurance policy made by the Lender. The Borrower acknowledges and agrees that the foregoing represent only the minimum insurance requirements of the Lender for the Real Property and the business of the Borrower and shall not be construed as a recommendation or opinion by the Lender as to the full scope of insurance which may be required by a prudent owner of the Real Property and the business of the Borrower, and the Borrower is hereby advised to govern itself accordingly in that regard.

3. **SALE OF THE PROPERTY:** In the event of a sale, transfer, conveyance or further encumbering of the Property or any part or parts thereof, or a lease of the Property, or any part or parts thereof or a change in the legal or beneficial ownership of the Property, or any part or parts thereof, then the Loan shall, unless the written consent of the Lender has first been obtained, acting in its sole and absolute discretion, forthwith become due and repayable in full at the option of the Lender and the Borrower shall be deemed to be in default under the Loan and all security given for the Loan shall become immediately and fully enforceable.
4. **MATERIAL REPRESENTATIONS AND WARRANTIES AND MATERIAL ADDITIONAL EXPENSES:** If at any time before or after acceptance of this Commitment or advance of the Loan Amount under the Loan, there is or has been any material change, discrepancy or inaccuracy in any written information, statements or representations made or furnished to the Lender by or on behalf of the Borrower concerning the Real Property and/or the assets and undertakings of the Borrower, or the financial condition of the Borrower, or in the event of default or breach of warranty or misrepresentation by the Borrower under this Commitment or any of the Security Documents, if applicable, then, in the event of such default or breach of warranty or misrepresentation, then, the Lender shall be entitled at its sole option, acting in its sole and absolute discretion, forthwith to withdraw and cancel its obligations hereunder or decline to advance the Loan Amount or any part or parts thereof under the Loan, as the case may be, and to declare the funds which have been advanced, together with interest, costs and expenses, to be forthwith accelerated, due and repayable in full.
5. **STANDARD CHARGE TERMS:** The Borrower acknowledges and agrees that the mortgage documents may incorporate by reference any and all Standard Charge Terms required from time to time by the Lender, provided that the terms and provisions of the mortgage document shall not be limited to any such Standard Charge Terms and may incorporate such additional provisions as are contemplated by this Commitment and/or as may be considered advisable by the Lender or its solicitors in their respective sole and absolute opinion. In this Commitment, "Standard Charge Term" refers to any set of Standard Charge Terms and the Lender's standard mortgage provisions prepared by the Lender and the Lender's solicitor, as the case may be.

6. **TAXES:** All realty taxes, including without limitation, local improvement charges, and penalties, if any, due and payable and all outstanding levies, special assessments and other charges relating to the Real Property shall be paid in full by the Borrower prior to the advance of the Loan Amount under this Loan. The Lender reserves the right to pay future taxes with respect to the Real Property and to collect from the Borrower an amount each month sufficient to pay the taxes in full by the due dates thereof. The Lender shall also have the right, at any time during the term of this Loan, including without limitation, any extensions or renewals thereof, to require the Borrower to establish and maintain a non-interest bearing tax escrow account with the Lender, wherein the Borrower shall deposit, on an equal monthly basis, the full amount of projected annual taxes, the accumulated funds to then be made available to the Borrower for the payment of taxes with respect to the Real Property, as and when due or, at the Lender's option, paid directly to the municipality. Nothing contained herein shall derogate from the Borrower's obligation to ensure that all taxes in relation to the Real Property shall remain paid when due.
7. **COMPLIANCE WITH BY-LAWS, ETC.:** Prior to the advance of the Loan Amount under the Loan, the Lender shall receive satisfactory evidence of compliance with all applicable building and zoning by-laws, restrictive covenants, agreements, with respect to the Real Property, and the rules and regulations of and with public authorities respecting the construction, use and occupancy of the Property, or any part or parts thereof. The Borrower agrees to provide written authority, duly signed by the Borrower and addressed to the requisite municipal or other authority having jurisdiction, so as to allow release to the Lender of any information contained in the records of such authority, or, at the Lender's option, to allow an inspection of the Real Property by such authority to determine any outstanding stop orders, work orders or deficiencies. The Borrower warrant and represent that the Borrower is not in default of any building and zoning by-laws, restrictive covenants, agreements with respect to the Real Property, including without limitation, the rules and regulations of and with public authorities respecting the construction, use and occupancy of the Property, or any part or parts thereof.
8. **WARRANTIES AND REPRESENTATIONS:** The Borrower makes the following representations and warranties to and in favour of the Lender, without which, the Lender would not have entered into this Commitment:
 - (i) this Commitment constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms (except as such enforcement may be subject to any applicable bankruptcy, insolvency or similar laws generally affecting the enforcement of creditors' rights and the discretion exercisable by the courts in granting equitable remedies such as specific performance);

(ii) this Commitment does not violate any contract, agreement, law, regulation, order, injunction, judgment or decree to which the Borrower is subject, or result in the creation or imposition of any lien upon any asset of the Borrower (except for the liens created by the Security and Security Documents);

(iii) there is no existing litigation and there are no legal proceedings pending, or threatened, against the Borrower before any court or administrative agency of any country which could materially and adversely affect the Property, the financial condition of the Borrower and/or the Borrower's assets and undertakings;

(vii) the Real Property and the uses of the Real Property complies with all applicable building and zoning by-laws, restrictive covenants, agreements, with respect to the Real Property, and the rules and regulations of and with public authorities respecting the construction, use and occupancy of the Real Property, or any part or parts thereof. Without limiting the foregoing, the Borrower warrants and represents to the Lender that the Property is legally zoned solely as a residential use and shall remain as such throughout the term of the Loan.

(viii) The property, including without limitation, the Real Property, and assets ("other than leased assets") of the Borrower are legally and beneficially owned by the Borrower, with good and marketable title thereto, free and clear of any and all Encumbrances;

(ix) No bankruptcy, insolvency or receivership proceedings have been instituted or are pending or imminent against or involving the Borrower and the Borrower is able to satisfy their respective liabilities and obligations, whether accrued, matured or not, absolute or contingent, liquidated or unliquidated or disclosed or undisclosed;

(x) The Borrower has paid all taxes, customs duties, fees, tariffs, premiums, imposts, rates, levies, assessments, reassessments and other charges, accrued, deferred and/or owing together with all penalties, interest and fines with respect thereto, payable to any governmental authority ("**Government Charges**") which are due and payable by each of them on or before the advance of the Loan Amount. The Borrower has collected all Governmental Charges as required by any governmental authority and has remitted such Governmental Charges to the proper tax or other receiving authorities within the time required under applicable law. There are no actions, suits, proceedings, investigations, enquiries or claims now pending or made or threatened against the Borrower in respect of Governmental Charges. The Borrower has withheld from each amount paid or credited to any person or other entity the amount of Governmental Charges required to be withheld therefrom and has remitted such Governmental Charges to the proper tax or other receiving authorities within the time required under applicable legislation. The Borrower is not in arrears or in default in respect of the filing of any required federal, provincial, or municipal tax or other return to any governmental authority and (i) all taxes, filing fees, and other assessments due and payable or collectable from the Borrower has been paid or collected; (ii) no claim for additional taxes, filing fees, or other amounts or assessments or re-assessments has been made that has not been

paid by the Borrower; and (iii) no such return contains any misstatement or conceals any statement that should have been included therein.

(xi) The Borrower, his agents and/or representatives, has not caused and is not aware of the release of any Hazardous Substance in, on, about or under the Real Property or adjacent to or in the vicinity of the Real Property and, the Real Property, including without limitation, all buildings and structures situate thereon, is not subject to any environmental contamination or Hazardous Substance.

(xii) The Property or any part or parts thereof is not subject to any expropriation or threatened expropriation by any expropriating authority.

9. EVENTS OF DEFAULT: Notwithstanding the terms set out in this Commitment, forthwith upon the occurrence of any of the following events, at the sole and absolute option of the Lender, the full amount owing to the Lender, whether as advances, fees interest, costs or otherwise, shall be accelerated and become immediately due and payable in full:

- (a) the Borrower is and continues to be in default in payment of any amount due to the Lender from time to time or of any fee, cost, charge or expense or other sum due to the Lender (for which the Lender is not required to provide any notice to the Borrower);
- (b) the discovery by the Lender that the Borrower or anyone acting on the Borrower's behalf, has made a material false representation or breach of warranty upon which the Lender actually relied or was reasonably entitled to rely in granting or continuing this Loan;
- (c) any default by the Borrower in the observance or performance of any of the other covenants or agreements on its part to be observed or performed in this Loan, and the failure to cure such default within five (5) days after written notice thereof is given by the Lender (save and except for the payment of any amount or amounts due and owing from time to time under the Loan for which no notice is required to be given by the Lender to the Borrower);
- (d) the Borrower shall fail to perform or observe any covenant, condition, or provision to be performed or observed by either of them under the terms of this Loan, the Security, including without limitation, the Security Documents, or any other agreement in writing, after receipt of five (5) days notice (save and except for the payment of any amounts due and owing from time to time under the Loan for which no notice is required to be given by the Lender to the Borrower);
- (e) any insurance policies to be provided by the Borrower pursuant hereto shall be or become cancelled or invalidated or threatened to be cancelled or invalidated or altered below stated requirements for any

reason before such policy is replaced with another which complies with the provisions hereof;

- (f) any default by the Borrower pursuant to the terms of any prior mortgages, charges or security whatsoever with respect to the Property, if applicable and which the Lender agreed to accept pursuant to this Commitment, if any;
- (g) the Borrower shall fail to maintain reasonable currency with respect to government priority payables;
- (h) the Borrower:
 - (ii) shall become insolvent (however such insolvency may be evidenced), bankrupt, or commit an act of bankruptcy;
 - (iii) shall make an assignment for the benefit of creditors, or shall be unable or admit in writing the Borrower's inability to pay the Borrower's debts, as the case may be, as they mature, or if bankruptcy, reorganization, arrangement, insolvency, or similar proceedings for relief of financially distressed debtors shall be instituted against the Borrower;
 - (iv) shall petition for or there shall be appointed for the Borrower, a trustee, receiver, or liquidator over all or a substantial part of the Borrower's assets; or
 - (v) shall take any action for purpose of effecting any of the foregoing.

10. WARRANTY AS TO TITLE AND AUTHORITY: Except as may be otherwise provided in this Commitment, the Borrower hereby further represents and warrants,

- (a) that the Borrower is the sole registered and beneficial owner of the Real Property, free and clear of any and all Encumbrances, and does not hold the same in trust for any other parties, person(s) or entity or entities whatsoever;
- (b) that the Borrower is not a spouse within the meaning of the Family Law Act (Ontario), as amended, and that by executing this Commitment, the Borrower hereby consents to the terms of this Commitment and covenants to obtain such spousal consents, if applicable, as required by the Lender's lawyer, including without limitation, as required pursuant to the Real Property, including without limitation, the First Mortgage on the Property, and with respect to the Security Documents and/or any other documents as may be required by the Lender pursuant to this Commitment;
- (c) that title to the Real Property is good and marketable and free and clear of any and all Encumbrances, save and except those which have been

expressly set out in this Commitment and save for such other encumbrances which are determined by and in the sole and absolute discretion of the Lender and its solicitors as not materially adversely affecting the Lender's Security;

- (d) that all parties hereto have the right to enter into this Commitment and to charge or pledge the Real Property and other assets herein stipulated as security for the Loan; and
- (e) that the Real Property and other assets herein stipulated as Security for the Loan do not, within the meaning of Section 244 of the *Bankruptcy and Insolvency Act (Canada)*, comprise all or substantially all of the inventory, accounts receivable or other property of the Borrower acquired for or used in relation to any business carried on by the Borrower.

11. PRIOR ENCUMBRANCES: This Commitment shall, upon acceptance by the Borrower, operate as a direction to the Lender to disburse at its sole option, out of the proceeds of the advance of the Loan Amount under this Loan, such amount or amounts sufficient to pay all outstanding realty taxes and penalties thereon, utility charges, construction and other liens and any and all other charges for deficiencies pertaining to the Property or the assets and undertakings of the Borrower, or any respective part or parts thereof, the amount required to discharge any prior encumbrances not being assumed or bring into good standing any encumbrances being assumed and any and all charges and expenses connected with the Loan, including, without limitation, all accrued and unpaid interest with respect to the Loan and all premiums for insurance of the Property. Provided further that an occurrence of any event of default under any prior mortgage, charge or security with respect to the Property, which the Lender agreed to accept pursuant to this Commitment, if any, shall be deemed to be an event of default under all the Security Documents, including without limitation, the First Mortgage on the Property, and the Lender shall be entitled to exercise all of its remedies hereunder and under the Security Documents as the Lender determines necessary, acting in its sole and absolute discretion.

12. NO SUBSEQUENT ENCUMBRANCES: The Borrower covenants and agrees that the Borrower shall not, at any time during the term of this Commitment and the Security Documents, including without limitation, the First Mortgage, without the prior written consent of the Lender, acting in the Lender's sole and absolute discretion, execute or deliver any mortgage, charge, lien or other encumbrance of the Real Property or any other assets and undertakings of the Borrower intended to rank subordinate to any of the Security Documents.

13. HAZARDOUS SUBSTANCES: In this Commitment, "Hazardous Substance" means any hazardous waste or substance, pollutant, contaminant, waste or other substance, whether solid, liquid or gaseous in form, which when released into the

natural environment may, based upon reasonably authoritative information then available concerning such substance, immediately or in the future directly or indirectly cause material harm or degradation to the natural environment or to the health or welfare of any living thing and includes, without limiting the generality of the foregoing,

- (a) any such substance as defined or designated under any applicable laws and regulations for the protection of the environment or any living thing;
- (b) asbestos, urea formaldehyde, poly-chlorinated biphenyl (PCB) and materials manufactured with or containing the same; and
- (c) radioactive and toxic substances.

The Borrower represents, warrants, covenants and agrees that:

- (a) the Borrower has not and, to the best of the Borrower's knowledge, information and belief after each making due inquiry, no other person has caused or permitted any Hazardous Substance to be placed, stored, located or disposed of on, under, about or at the Property;
- (b) the Borrower and the Borrower's tenants, if applicable, invitees and other occupiers of the Property, have and will at all times and, to the best of the Borrower's knowledge, information and belief after making due inquiry, all prior owners and occupiers of Real Property have at all times carried out all business and other activities upon the Real Property in compliance with all applicable laws intended to protect the environment including, without limitation, laws respecting the discharge, emission, spill or disposal of any Hazardous Substance;
- (c) no order, direction, enforcement action or other governmental or regulatory action or notice, nor any action, suit or proceeding relating to any Hazardous Substance or the environment has been issued or is otherwise threatened or pending with respect to Real Property;
- (d) each of the representations and warranties set out herein shall remain true and accurate in all respects up to and including the date of the advance of Loan Amount and thereafter until the Loan is repaid in full; and
- (e) the Lender may delay or refuse to make any advance to the Borrower if the Lender believes that any of the representations and warranties set out herein were not true and accurate when made or at any time thereafter.

The Borrower shall permit the Lender to conduct, at the Borrower's expense any and all tests, inspections, appraisals and environmental audits of the Property so as to determine and ensure compliance with the provisions of this paragraph including, without limitation, the right to conduct soil tests and to review and copy any records relating to the Real Property or the businesses and other activities conducted thereon at any time and from time to time.

The Borrower covenants and agrees to fully indemnify and save harmless the Lender and its officers, directors, employees, agents and shareholders, heirs, administrators, successors and assigns from and against any and all losses, damages, costs and expenses of any and every nature and kind whatsoever which at any time or from time to time may be paid or incurred by or asserted against any of them as a direct or indirect result of;

- (a) a breach of any of the representations, warranties or covenants hereinbefore set out;
- (b) the presence of any Hazardous Substance at, on, about or under the Real Property or any of them; or
- (c) the discharge, emission, spill or disposal of any Hazardous Substance from the Real Property or any of them, into or upon any land, the atmosphere, any watercourse, body of water or wetland;

and the provisions of all representations, warranties, covenants and indemnifications set out herein shall survive the repayment and satisfaction of the Loan and the release and discharge of the Security Documents.

14. SURVIVAL OF TERMS: Notwithstanding the delivery and registration of any or all of the Security, including without limitation, the Security Documents, contemplated by this Commitment and the advance of Loan Amount pursuant thereto, the terms and conditions of this Commitment shall remain binding and effective on the parties hereto, and shall not merge in the Security Documents or any of them, and the terms of this Commitment shall be incorporated by reference into the Security Documents. In the event of any conflict, discrepancy, defect and/or ambiguity between the terms of this Commitment and any of the Security Documents, or any conflict, discrepancy, defect and/or ambiguity as between any of the Security Documents, the Lender, acting in its sole and absolute discretion, shall decide the provisions of which document shall prevail.

15. SOLICITORS AND DOCUMENTATION: All legal matters and documentation required herein shall be satisfactory to the Lender's solicitors, whose fees and disbursements with respect hereto the Borrower covenants and agrees to pay whether or not this transaction is completed as contemplated herein. All Lender's fees, legal fees and disbursements with respect to this Commitment and the completion of the transactions contemplated thereby shall be payable by the

Borrower and deducted by the Lender's solicitors from the advance of the Loan Amount.

16. **SOLICITOR'S OPINION:** All advances of the Loan Amount in this Loan are subject to receipt by the Lender of an opinion acceptable to the Lender from its solicitors as to the effectiveness and priority of all Security Documents. The Borrower covenants and agrees to deliver to the Lender or its solicitors, forthwith upon request, such other documents, assurances, information and covenants as the solicitors for the Lender may require with regard to the Loan or the Security Documents to be given hereunder.
17. **LENDER'S DOCUMENTATION:** All terms and conditions of the Lender's usual Security Documents and supporting documents shall be deemed to be incorporated in and form part of this Commitment. The form and content of all documentation shall be made available for the Borrower's inspection upon request. Prior to the advance of funds under the Loan, the Lender and its solicitors shall be satisfied with the form and content of all documents in connection with the Loan, all disbursement procedures and all matters relating to title and the security.
18. **PAYMENT OF COSTS:** The Borrower shall pay, whether or not the Loan or any part or parts thereof is disbursed, all costs of investigation of title by the Lender's solicitors, registration fees, title insurance costs, legal costs, appraisal costs, all consultant fees and out-of-pocket expenses incurred by the Lender relating to the Loan and to preparation of this Commitment and for and the completion of the transaction contemplated by this Commitment.
19. **CREDIT:** The Borrower acknowledges receipt of notice that usual credit and personal enquiries may be made at any time in connection with the credit hereby applied for and consent to disclosure of any such information to the Lender and any other credit grantors or to any consumer reporting agency.
20. **EXECUTION, DELIVERY AND NOTICES:** This Commitment and any amendment(s) thereto may be executed (including by electronic means) in any number of counterparts, each of which shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument and will constitute an agreement binding on the parties effective on execution as aforesaid. This Commitment, as may be amended from time to time, may be executed (whether in counterparts or otherwise) either in original or electronic form, including without limitation, faxed form, photo and text form, email form and/or PDF email form and, the parties adopt any signatures (whether in counterparts or otherwise), executed and received by electronic form, including without limitation, receiving a signature by fax machine, photo and text, email, and/or PDF email, as original signatures of the parties. The parties hereto further agree that any notices contemplated herein may also be so transmitted in original, electronic form, including without limitation, faxed form, photo and text form, email form and/or PDF email form and acceptance or receipt thereof shall be deemed to occur at the

time and date of sending. Notwithstanding anything to the contrary in this Commitment, the Lender shall have the right, at any time before the advance of the Loan Amount, to require the Borrower and Guarantor to provide “wet ink” originals, without counterpart, of this Commitment, the Security and all other documents to be provided by the Borrower and Guarantor with respect to the completion of the transaction contemplated in this Commitment. Any notices given by personal delivery, email transmission or facsimile transmission shall be deemed to have been received on the day of and at the time such delivery or transmission and all other notices shall be deemed to have been received at 2:00 p.m. on the second business day after the posting thereof. In the event of actual or reasonably anticipated postal disruption, all notices shall only be given by personal delivery, email transmission or facsimile transmission. Any party may from time to time by notice given as provided herein change its address for the purpose of this provision.

21. **ASSIGNMENT OF COMMITMENT:** This Commitment and the obligations, rights and benefits arising herefrom shall not, at any time, be assigned by the Borrower to any other person(s), corporation(s) (now or hereinafter in existence) or other entity or entities, without the prior written consent of the Lender, which consent may be arbitrarily and unreasonably withheld. This Commitment and the obligations, rights and benefits arising herefrom may, at any time, be assigned by the Lender to any other person(s), corporation(s) (now or hereinafter in existence) or other entity or entities, without the consent (written or otherwise) of the Borrower, and concurrently upon such assignment by the Lender, the Lender shall be deemed fully released and discharged from this Commitment and the obligations, rights and benefits arising herefrom.
22. **TIME OF THE ESSENCE:** Time shall be of the essence in this Commitment. The times herein specified for the taking of certain action by the Borrower are in each case firm and shall not be extended without the written approval of the Lender.
23. **PRIOR DEALINGS:** This Commitment supersedes and replaces all prior negotiations and/or agreements made between the parties hereto, whether oral or written, expressed or implied, relating to the subject matter hereof, and contains the entire understanding and agreement among the parties hereto with respect thereto and there are no collateral agreements, promises, representations or understandings between the parties, whether written or oral, express or implied, unless expressly set out in this agreement. This Commitment may not be amended except by a further agreement signed by all of the parties hereto, whose rights and obligations are affected by such amendment.
24. **AMENDMENTS:** No term or requirement of this Commitment or any Security Documents may be waived or varied orally or by any course of conduct of any officer, representative, employee or agent of the Lender. Any amendment to this Commitment or any Security Document must be in writing and signed by the Lender.

25. WAIVER OF DEFAULTS: Any waiver by the Lender of any default by the Borrower or any omission on the Lender's part in respect of any default by the Borrower, which shall be in writing by the Lender, shall not extend to or be taken in any manner whatsoever to affect any subsequent default by the Borrower or the Lender's rights resulting therefrom.

26. INTERPRETATION: This Commitment shall be interpreted in accordance with the laws of the Province of Ontario and the parties hereto hereby attorn to such jurisdiction. This Commitment shall enure to the benefit of, and be binding upon, the parties hereto and their respective heirs, executors, administrators, successors and permitted assigns. The paragraph and other headings set forth in this Commitment are inserted for convenience and reference only and shall in no way define or limit the intent or interpretation of any of the provisions hereof. This Commitment shall be read and construed with all changes of gender and number of the party or parties referred to in each case as required by the context, and the covenants and agreements of the borrowers, if applicable, shall be deemed to be joint and several. The terms and conditions set forth on any Schedules referred to and attached to this Commitment are deemed to be included in this Commitment and form a part hereof. The term "herein" when used in this Commitment shall mean reference to the entire agreement unless the context requires otherwise.

27. BORROWER: The Borrower acknowledges and agrees that the Lender will be complying with *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (referred to in this section as the "Act") and all regulations thereto. Pursuant to the Act, the Lender is required to obtain identification of the Borrower and any third party involved in the transaction, and for information with respect to the source of funds provided by the Borrower. The Borrower covenants and agrees to provide, prior to the advance under the Loan, such identification and information as may be required by the Lender in order to comply with the provisions of the Act.

28. FEES AND EXPENSES: In addition to interest provided for at the rate set out in the Commitment, the Commitment Fee and reimbursement of all costs and expenses of the Lender by the Borrower, the Borrower further covenants and agrees to pay the following current administrative fees and charges with respect to the First Mortgage, in addition to and not in substitution of any other rights and remedies of the Lender, and such other fees, costs and/or expenses of the Lender such other administrative fees and charges, acting in the sole and absolute discretion of the Lender, as a genuine pre-estimate of the administrative compensation to the Lender and not as a penalty, and in addition to such other fees and expenses (including without limitation, legal fees and expenses on a full indemnity basis) as required by the Lender and as will be more particularly set out in the First Mortgage on the Property:

(a) Service Administrative Fees:

(i) Late Payment Fee: **\$500.00** shall be payable for each missed or late installment payment and for replacing and processing each

cheque marked Non-Sufficient Funds (NSF), stop payment or returned payment or any other payment by the Mortgagor not honoured by the Mortgagor's financial institution;

(ii) Insurance: **\$450.00** shall be payable for dealing with each cancellation or threatened cancellation of the Mortgagor's property insurance policy, premium payment or other non-compliance with insurance requirements of the insurance company of the Mortgagor with respect to the Property;

(iii) Default: **\$5,000.00** shall be payable for each legal proceeding instituted by the Mortgagee as a result of a default by the Mortgagor pursuant to the Commitment and/or the First Mortgage;

(iv) Mortgage Statements: **\$350.00** shall be payable for preparation of each mortgage statement with respect to the First Mortgage;

(v) Purchaser Approval: **no less than \$750.00** shall be payable for processing each application for assumption of the First Mortgage, whether or not approved or completed;

(vi) Possession: **\$5,000.00** shall be payable for the Mortgagee attending to take possession of the Property following default under the First Mortgage;

(vii) Discharge Statement Fee: **\$500.00** shall be payable for the discharge of the Property;

(viii) Tax Default Fee: **\$500.00** shall be payable for failure by the Mortgagor to provide satisfactory confirmation of tax payments with respect to the Property;

(ix) Wire Transfer Fee: A **\$100.00** administrative fee for all advances made by way of a wire transfer or direct deposit; and

(x) The Lender's usual fees and charges as more particularly set out in the Lender's standard mortgage provisions;

(xi) The Mortgagee reserves the right to increase the aforesaid administrative charges from time to time and to also charge such other reasonable fees for other administrative services from time to time.

(b) Expenses: Whether or not the Loan is disbursed, and notwithstanding the retention of the Commitment Fee by the Lender, the Borrower shall pay to the Lender, immediately upon presentation of invoices, all of the Lender's third-party costs and expenses relating to the Loan, including due diligence and legal costs and expenses, and including costs and expenses, if any, incurred by the Lender due to proceedings under the *Bankruptcy and Insolvency Act (Canada)* relating to the Borrower. To the extent that any such costs and expenses remain unpaid, the subject amount may, at the Lender's option, be deducted from any advance under the Loan or may be added to the then outstanding principal balance of the Loan and shall bear interest at the same rate as, and be secured in the same manner as the Loan.

APPENDIX C - The Vadim Kats Story

Arash Missaghi was 54 when he was shot and killed in his Toronto office in June 2024. His death, while tragic, exposed over two decades of mortgage investment fraud, involving dozens of victims. Despite numerous lawsuits and two failed criminal cases, Missaghi never faced any criminal or civil conviction. He worked with at least seven real estate lawyers, many of whom he allegedly bullied and threatened. Missaghi specialized in fraudulent mortgage investments, exploiting lawyers to legitimize shady transactions and routinely threatening those who resisted. Five lawyers were sanctioned by the Law Society of Ontario (LSO) for facilitating his frauds prior to his murder.

His schemes often targeted vulnerable markets, typically unsophisticated or immigrant investors, funneling millions of dollars into fake or failed real estate ventures. In just this one case, dozens of people were harmed. The Ontario Securities Commission (OSC) reported assessing 858 cases in the enforcement division and reaching more than 30,000 Ontario residents through 124 investor education outreach events. How many more people must suffer before authorities take drastic action to reduce white-collar crime?

Public discontent has grown, increasingly. One YouTube commenter wrote, “When the Canadian justice system fails and our country is full of scammers...” Another added, “Don’t scam people, ruin their lives and then thumb your nose at them while hiding behind a lax legal system. I feel bad for the true victims.” A third said, “To anyone who thinks that robbing honest Canadians of their life’s savings is without consequence, this could be your fate too.” Canadians feel betrayed by their government’s inability to address the rising white-collar crime rate, frustration that may lead to more desperate actions.

Multiple careers were damaged or destroyed due to involvement in Missaghi's schemes.

Norman Silver surrendered his license after facilitating \$2 million in fraud. Golnaz Vakili was disbarred in 2015 and eventually fled Canada in fear. Jonathan Ricci was suspended in 2016 for non-cooperation and was unsuccessfully sued by the LSO. Barry Polisuk was suspended for one month in 2018 for lack of oversight. Rasik Mehta surrendered his license in 2019 and testified about being threatened by Missaghi. All the lawyers involved reported being intimidated, with Missaghi sending messages like: "I'm a big man and people fear me... I can ruin your lives overnight."

Despite the disbarments, they happened far too late to prevent damage to many victims. Missaghi, who was never a licensed lawyer, operated with impunity for years - exploiting legal gray areas without real oversight. Victims repeatedly reported fraud, intimidation, and financial devastation, but authorities treated each case in isolation, failing to recognize the broader pattern of abuse. Law enforcement often dismissed these crimes as civil matters, overlooking their long-term, devastating consequences. One commenter noted: "I complained about fraud to the police and got two different responses. One officer said, 'Fraud is a civil matter.' Another said, 'We don't have the manpower to investigate fraud. We only investigate assaults.'" **This highlights the systemic neglect of white-collar crime.**

There is a clear bias that allowed Missaghi and his network to continue preying on vulnerable individuals like Vadim Kats, whose home was seized following a series of exploitative mortgage deals. With no legal intervention, Kats and others felt powerless, ultimately compelled to take matters into their own hands. The tragic murder-suicide shows

how unresolved white-collar crime can escalate into tragic consequences when institutions fail to provide justice.

Missaghi's death revealed the urgent need for stronger preventative mechanisms, continuous monitoring, greater accountability, and a rethinking of how fraud is addressed in Canada. While some of Missaghi's legal associates were punished, it raises critical questions: Why didn't law enforcement act earlier? Had Missaghi been stopped in 2015 when Silver was caught, many could have been spared, including Missaghi himself, who ultimately paid with his life.

Arash Missaghi died without ever facing a legal conviction, despite over 20 years of financial malfeasance. While some of his crimes remain allegations, there is overwhelming evidence of threats and bullying. One chilling message read, "People who disobey me end up missing." Not only does this suggest the threat of violence, but it also borders on a confession. In another message, he warned, "I have ways of quieting down those who ask me stupid questions." Whether these were bluffs or genuine admissions, both fit the profile of red collar crime - violence or threats used to suppress dissent in order to continue white-collar crime.

These threats were deliberate. Missaghi used intimidation to: Silence those asking questions, discourage whistleblowing, obstruct regulatory investigations. Such tactics are textbook red collar crime. It is plausible that his frauds were concealed through fear. Few would risk their safety or careers to stop him. Without his coercive methods, Missaghi might have been deterred far sooner.

Vadim Kats, after years of being defrauded and ignored by Canadian legal institutions, was pushed to the brink. His suicide note held Missaghi and two lawyers responsible for his downfall. Kats pursued all legal channels: complaints to the LSO, lawsuits, and more. Yet, he received minimal support. The emotional and financial devastation, including losing his home, left him broken. Law enforcement's inaction let the fraud persist unchecked, leaving victims like Kats feeling abandoned and enraged.

The murder-suicide was not a random act nor a possible psychotic break; it was a calculated response by someone who believed the justice system had utterly failed him, leaving him with no other options. This progression illustrates how unchecked exploitation can yield tragic, violent outcomes. A Globe and Mail reader commented: "I think this is a sign we need more education about investing and investment fraud. The thing is, I don't know what educational stage would be appropriate." Clearly, prevention starts with awareness and swift accountability.

The broader implications of the Missaghi matter reveal systemic flaws in the handling of white-collar crime. Despite mounting evidence and repeated complaints, regulators and enforcement agencies failed to act over a prolonged period of time. As a result, the perpetrators continued to operate, perhaps becoming more emboldened, while victims endured years of financial ruin and psychological distress. This neglect sends a dangerous message: that professionals with legal or financial power are untouchable, while victims suffer in silence.

When institutions fail, the social contract breaks down. Kats' story, and those of many others, disproves the myth that white-collar crime is 'non-violent' and victimless. In reality,

the damage is immense affecting not only individuals but the fabric of society. When the public see financial criminals ‘walk free,’ trust in institutions erodes. In extreme cases, it fuels violent retribution.

Missaghi’s story is a stark warning. Unless ‘fraud laws’ - legal reform - are more aggressively enforced, unless regulatory agencies act quickly, and unless victims receive support, we may see more tragedies. This case highlights the urgent need to treat white-collar crime not as a regulatory nuisance but as an imperative, and serious threat to public safety and social stability.

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APPENDIX D – Interview Questionnaires and Answers

INTERVIEWS:

Interview 1: Real Estate / Mortgage Lawyer

Interview 2: Developer

Interview 3: Title Insurer

Interview 4: Lender

Interview 5: Mortgage Fraud - Perpetrator

Interview 6: Mortgage Fraud - Victim

INTERVIEW 1: Real Estate (and Mortgage) Lawyer

Brief CV:

My name is Severino (ask Sam) Salvati. I have been in the practice of law in Ontario, Canada for over 35 years. My areas of focus are in corporate commercial law, real estate law, and as an extension, I possess a particular experience in dealing with mortgages. I have practiced through several real estate booms and the occasional real estate ‘cool off’ thus I am conversant in transactional tendencies during these times.

1. Real Estate / Mortgage Lawyer

1. How often do you encounter issues that suggest mortgage fraud in your real estate practice?

Not often...the main reason is due to the fact that the majority of the work performed involves existing clients with whom the law firm has a strong business relationship.

2. What red flags typically indicate possible fraud during a transaction?

- There is a surplus of mortgage proceeds after the closing of a mortgage transaction that is to be paid to the borrower or to a third party.
- On a refinancing, the borrower brings to the lawyer the mortgage discharge statement for the loan being refinanced. Only a statement from an existing private mortgagee’s solicitor and registration of the discharge of the private mortgage at the closing, or a statement received directly from the existing institutional mortgagee, should be accepted.
- The client directs part of the mortgage proceeds to third parties who are not creditors.

- The client instructs the lawyer that it is unnecessary to prepare written directions authorizing the payment of funds to third parties.
- The client directs the lawyer to rebate a portion of the mortgage surplus to the vendor.
- A new client (facilitator) refers a number of real estate files to the lawyer, and the client, although not a party to the transaction, controls the transaction (e.g. gives instructions to the lawyer, arranges for the parties to the transaction to sign documents, etc.) and directs the parties in the transaction.
- The client was not referred by anyone the lawyer knows.
- The client does not have a personal cheque for the client's pre-authorized debit plan but provides a blank "counter cheque."
- The lawyer is instructed to pay the excess mortgage proceeds to the facilitator even though the facilitator does not appear to have an interest in the transaction.

3. In your experience, how do fraudsters exploit legal documentation or procedural gaps?

A fraudster might get a mortgage using the identity of an existing property owner. The real property owner only finds out about the mortgage when they are notified it is in default, at which point, the true owner must go to court or to a hearing with the director of titles to get the mortgage discharged without payment. The widely accepted practice and use of electronic execution of documents by lawyers and other professionals provides opportunity for the fraudster to provide documentation in electronic form, including the use of electronic signatures, that is seldom verified by the lawyer or other professional.

4. What due diligence steps do you take to verify the authenticity of buyer/seller information?

Verifying the authenticity of property documents is a crucial step in the property buying process to avoid potential fraud, disputes, or legal complications. Firstly, you should have a solid business history with the client. The documentation provided by the buyer/seller should be in original form. The title should be searched to confirm the information provided by the buyer/seller.

5. Have you ever had to report a suspected fraudulent transaction? What was the process?

Yes. I immediately contacted the Land Registrar and provided the evidence of the fraud and demanded that access to the title be blocked. If the evidence is compelling, the Land Registrar will cooperate and did in my case. I also contacted the fraud division of the police department and had my client file a police report. I also contacted the title insurance company that provided coverage on the title of the property and assisted my client in filing a claim under the title insurance policy.

6. How effective is the current legal framework in deterring real estate-related fraud?

It is moderately effective in deterring real estate-related fraud. However, significant loopholes remain. For example, there is no single based process that all lawyers must follow in any particular real estate transaction. Also, the system encourages the use of remote signatures and meetings which allow the fraudster to act without detection.

7. What common misunderstandings do your clients have about mortgage and title processes?

- my clients are led to believe through their real estate and insurance brokers that the process to search and acquire title to property and/or register a mortgage is simple, quick and relatively inexpensive;
- they believe that an approved mortgage may be varied without the submission of a new mortgage application;
- as long as money required to close a transaction is available, there should be no issue in closing a real estate transaction. That is to say, the source of the funding for the subject transaction is irrelevant from the client's perspective.

8. How has technology (e.g., e-signatures, online registries) impacted the risk of fraud?

As stated above, technology encourages the use of remote signatures and meetings which allow the fraudster to act without detection. However, the land registry system known as Teraview is a technological advancement that has reduced the opportunity for fraud. For example, only licensed real estate lawyers have secure access to the Teraview platform. Also, registered documents are vetted by the Registrar prior to certification of the instrument.

9. What safeguards are in place during the closing process to prevent mortgage fraud?

- client identification by the lawyer or alternatively, independent identification sites may be utilized to provide confirmation of identity;
- independent inquiries are made by the title insurance company regarding the identity of the borrower or when powers of attorney are used in a real estate transaction;

- inquiries are made by title insurance companies to lawyers regarding the relationship of the lawyer to the borrower.

10. How do you collaborate with others (e.g., brokers, lenders, registrars) to identify fraud?

- I make inquiries with the brokers and lenders to determine whether there exists a business history with the borrower and his/her reputation;
- in the case of an intended use of the power of attorney that I am advised was drafted by a lawyer, I will attempt to confirm with the lawyer that he actually drafted the power of attorney and that he is familiar with the named attorney in the said power of attorney;
- in the case of a possible fraud, I will contact the Land Registrar directly and advise of the possibility of fraud and request that access to the title that is the subject of the fraud be restricted;
- I will also contact the title insurance company in the case of possible fraud.

11. Do you feel the legal profession is adequately trained to detect, respond to mortgage fraud?

No. However, I believe that is not the only problem as it relates to fraud perpetrated on the legal profession. I believe that the legal profession is unreasonably pressured to act in a transactional manner with respect to mortgage matters with limited time and resources. It is common for a lawyer to be requested to complete a mortgage transaction within an unreasonably limited period of time and for a fee that does not reflect the time and expertise required for a transaction of this nature.

12. What improvements would you suggest preventing legal loopholes from being exploited?

All lawyers must conduct a thorough due diligence, including title searches and personal contract reviews, and by ensuring all legal requirements are met during the closing process such as, independently verifying a mortgage discharge statement.

13. How do title insurance policies factor into protecting against fraud?

- the application for a title insurance policy requires the disclosure of information relating to the identity of the borrower. In some cases, the identity of the borrower is verified by an independent entity;
- title insurance companies are also directly involved in making direct inquiries with the lawyers acting for the borrower. For example, the relationship between the lawyer and the borrower is questioned to determine if the lawyer has a strong and credible relationship with the borrower.

14. Are there systemic issues in land transfer/registration processes that add to fraud risk?

- the limited power of Land Registrar, the lack of expertise and resources available, and the automated land registration system security with limited involvement of any person, all contribute to the increase in the risk of fraud;
- also, there is the increased use of fraudulent powers of attorney. This has the effect of excluding the owner of the property from the transaction.

15. Can you share a case (no names) where legal oversight prevented or failed to stop fraud?

I can speak to a case where legal oversight prevented a fraud. It was a matter that involved the registration of a fraudulent mortgage and the attempt at a fraudulent sale of property. The registered owner was a corporation. The fraudster changed the corporate information of the corporation lodged with the Ministry by identifying himself as the sole director and officer of the corporation. He then retained a lawyer and advised he did not have any corporate information as his corporate book was lost or destroyed. I conducted a search at the Ministry and obtained a corporate profile report of the corporation that showed that the fraudster was the sole director and officer of the corporation. The true director and officer received strange calls from people about the property which he communicated to me. I was immediately concerned and obtained instructions to conduct a search of the property where I found a fraudulent private mortgage registered on title. I contacted the Land Registrar and advised of the fraud and demanded that no access to the title be allowed without the consent of my client. I also contacted the title insurance company and made a claim on behalf of my client.

I was retained by the title insurance company to resolve the claim. I contacted the lawyer whom I was advised contacted my client previously and made unusual inquiries about the property. I relayed this information to the Land Registrar who extended the order restricting access to the title of the property without the consent of my client. An investigation later revealed that the fraudster sold the property. However, the sale of the property could not be completed due to actions of the law

firm that prevented the completion of the fraud. The client was also compensated for the fraudulent mortgage.

16. How does your role differ from that of a real estate lawyer in preventing mortgage fraud?

The professional standards are the same and the obligations are similar.

17. What are the most common types of mortgage fraud you see in your practice?

Identity fraud.

18. In your opinion, which regulations or procedures are most vulnerable to abuse?

Regulations and procedures that permit lawyers to act for clients without physically meeting the clients and conducting an “in person” interview.

19. How do you validate the legitimacy of a mortgage application from a legal perspective?

Through direct contact with the lender and/or broker that offered the mortgage or completed the application.

20. What trends have you seen in fraudulent activity in recent years?

In recent years, given the steep rise in real estate values and the need to qualify for greater mortgage amounts to facilitate the completion of such transactions, fraudulent activity has extended to mortgage applications where individuals misrepresent income, employment status, or debt levels to meet lender requirements. This is aided and abetted by mortgage brokers who have an incentive to assist in providing the fraudulent documentation and information given that they mostly earn money primarily on a commission-based platform.

21. How involved are you in working with lenders to verify borrower information?

I am only involved in verifying information if required by the lender as an expressed pre-condition in the mortgage commitment of the borrower. This usually involves verifying the borrower's identification, property tax statements, and creditor statements from other creditors that are required to be paid out by the lender on closing such as existing lenders who have registered a mortgage on the title of the borrower's property or obtaining credit statements from credit card companies. Unless expressly required by the lender as part of the written mortgage commitment, I am not involved in verifying any other borrower information.

22. Can you explain how misrepresentation, forgery typically occurs in mortgage documents?

The borrower with or without the assistance of a mortgage broker or any other party may:

- i. inflate their income or fabricate employment history to meet the lending criteria. For example, a borrower might forge an employment letter from a fictitious employer, or fabricate pay stubs or tax returns showing higher earnings than actual;
- ii. manipulate credit reports to improve their creditworthiness. This could involve appropriating someone's identity to fabricate a good credit or hacking into systems to alter credit information directly;
- iii. obtaining a fraudulent appraisal and inflating a property's value to obtain a larger loan amount. For example, a complicit appraiser may provide a fraudulent appraisal report that overvalues the property's fair market value;

- iv. the borrower may create fraudulent title documents that may be used to facilitate the fraudulent sale of a property that the seller does not legally own;
- v. a **fraudulent** owner may obtain a mortgage or sell a property. This often involves creating fake identification documents, like driver's licenses or passports; and,
- vi. manipulating closing statements and escrow instructions can redirect funds to fraudulent accounts.

23. What challenges arise when prosecuting mortgage fraud?

Typically, the fraudster is no where to be found after the fraud is committed. The only other parties involved in the scheme are usually unwitting dupes without knowledge of the fraudulent scheme. More often than not, this may include a banker or lawyer that is unaware of the fraudulent scheme.

The burden of proof when prosecuting a civil mortgage fraud usually lies with the victim of the fraud who has no knowledge of the scheme.

In some cases, innocent parties are required to absorb the liability for the fraud which leads to harsh results and creates a challenge from a public policy perspective.

24. How does fraud affect lenders versus homeowners differently from a legal standpoint?

In certain circumstances, an innocent lender may have a valid mortgage notwithstanding that the fraudster impersonated the owner of the property. However, the owner in this situation, is more likely to be victimized in as much as

the owner may be required to pay out the mortgage notwithstanding that such owner was not a party to the fraud. If the owner has title insurance, the title insurance company may compensate the owner. The owner has potential recourse against the Ontario government land registrar but the process is time consuming, unpredictable and costly.

25. What role should legal professionals play in systemic reform or policy development?

The lawyer should be the prime consultant for systemic reform or policy development. The lawyer is essentially the gatekeeper of the real estate system and has the greatest knowledge, experience and sophistication of the system, and must play the lead role in order to ensure that any party that seeks to transact real estate either through the sale, mortgaging and/or any other dealings with real property, is legitimate. As an example, prior to accepting a file, the lawyer should have intimate knowledge of the client prior to accepting any retainer involving real property. If the lawyer does not know the client and has no previous dealings with the client, the lawyer should be required to engage in a thorough vetting process so as to confirm the identity of the client and parties who are assisting the client in carrying out the transaction.

26. How do you see collaboration between lawyers, regulators, financial institutions evolving?

As title insurance companies continue to establish a foothold in the real estate system, there will continue to be a strong incentive on their part to create a secure system of title registration that minimizes exposure to losses through fraudulent

activity. This will likely be the most significant motivating factor in creating an environment of strong collaboration between lawyers, regulators and financial institutions with the goal to eliminate fraud in the real estate system.

27. Are current disclosure requirements sufficient to mitigate the risk of fraud?

Yes. However, the more significant problem is the fraud committed with respect to the disclosure requirements. This may involve producing fraudulent identification, falsifying employment income, tax returns, credit scores, and forgery of documentation.

28. What legal gaps do you believe exist in the mortgage origination process?

There is little to no accountability for the conduct of due diligence in completing the mortgage application and verification of the information and documentation provided therein.

29. Can you describe a case where legal intervention was key in identifying mortgage fraud?

- See answer to question 15 above.

30. What legal reforms would most effectively reduce the incidence of mortgage fraud?

- develop a unified process for the verification of the lawyer's client. There must be a history of dealings with the client (or a rigorous process initially, with similar effect);
- establish a central financial crime authority with strong, timely enforcement powers;
- increase criminal and civil penalties for mortgage fraud;

- establish a registry where the names of fraudsters are listed and the nature of the fraud they perpetrated is disclosed; and,
- develop more specialized training programs for lawyers, mortgage brokers, and financial institutions to prevent and detect mortgage fraud.

INTERVIEW 2: Real Estate Developer (Retail Sales Focus)

Brief CV:

My name is Matt Beinke. For over 25 years I have been a partner and managing director of a privately held development company, specializing in market rate and active adult, master planned communities, developing approximately 13,000 units, 7 golf courses and over 110 acres of commercial retail and mixed use space. Responsibilities included everything from land acquisition, land planning, design, and approvals through all levels of government. I approved the contracts for each home we sold, which has included numerous fraudulent applications. As well, I was involved with several land transactions requiring a “work-out” due to mortgage fraud. I spent my final year of law school as a Clerk with a law firm on the land use, governmental and transaction team. I worked on many land deals, and many office building sales in downtown San Francisco.

2. Interview Questions for a Real Estate Developer (Retail Sales Focus)

1. From a developer’s perspective, what are the key risks of mortgage fraud that could impact a residential project?
 - i. Fraudulent buyer closes, moves in and then defaults and the home is foreclosed.
 - ii. Falsifying rep. as a ‘primary residence’ to get better rates and terms, but are renters.

2. Have you ever encountered suspicious behavior or irregular transactions during pre-construction or closing phases?
 - i. Yes, we have seen falsified incomes, employers and assets.
 - ii. Falsify the actual buyer. Straw Buyer with better credit or family member.
3. In your experience, how do retail-level misrepresentations (e.g., income inflation, straw buyers) affect project sales or reputational risk?
 - i. Falsifying “primary residence” when it’s actually a rental causes largest sales and reputational impact.
 - ii. People that want to own don’t want to live in a rental community.
 - iii. Impacts neighborhood appreciation and value.
4. What safeguards do you implement (if any) to ensure buyers are legitimate and not part of fraudulent schemes?
 - i. Require as much vetting and verification as possible between sales office, lender rep. and title company.
 - ii. Require immediate deposits that become non-refundable as soon as the law permits, and non-refundable payment for options and upgrades.
5. Have you observed any trends in buyer behavior that suggest increased exposure to mortgage fraud?
 - i. Identity theft is on the rise.
 - ii. Falsifying income through straw buyers and family members in order to try and qualify.
6. How do you work with sales brokerages and mortgage agents to ensure proper vetting of purchasers?

- i. Regular meetings and communication, verifications and sign offs during the escrow period.
- ii. Multiple deposits where possible. Upfront payments for options and upgrades.

7. What red flags would alert you that a unit sale may be connected to fraud?

- i. Random people coming to see the property.
- ii. Challenges to verify income, employment, and assets.

8. How do bulk purchases or investor-driven sales change the fraud risk landscape for developers?

- i. Increases risk due to confirming legitimacy and ability of purchaser.
- ii. Not knowing how they raised the money or what representations were made to investors.
- iii. Failure to close can result in standing inventory that can impact project pricing, value, reputation, and future loan draws with developer/builder lender.

9. Do you believe some developers intentionally overlook fraud indicators in order to maintain sales volume?

- i. Probably. Some believe as long as it closes, and the money passes through, it's not their problem.

10. What impact do fraudulent transactions have on financing arrangements or draw schedules with lenders?

- i. I haven't heard or seen Buyer fraud impact project financing or draw schedules. That could certainly happen with a fraudulent bulk purchaser

depending on how much standing inventory created as a result of the failed closing.

11. How have regulatory changes (e.g., stress tests, anti-money laundering rules) influenced your sales process?

i. Certainly; tighter than before the “Great Recession.” Loan standards and requirements are higher, which has improved the sales process. Generally, it uncovers issues earlier in the process. However, tighter requirements and increases in down payments increase the possibility of fraud.

12. Have there been instances where post-sale issues (title disputes, buyer identity issues) affected your development projects?

i. Thankfully no, but some owner occupiers did turn out to be renters, but not on a scale to negatively impact the community.

13. What role should developers play in mitigating mortgage fraud risks in the real estate ecosystem?

i. Make sure that our sales process and vetting is as thorough as possible.
ii. Only work with reputable lenders and their sales representatives.

14. Are there policy or market reforms you believe would better protect developers and legitimate buyers?

i. Technology has improved many things in the sales process, but identity theft and falsifying information and signatures has become easier.

15. In your view, how could coordination between developers, lenders, and regulators be improved to detect and prevent fraud?

i. I believe coordinating to strengthen the sales process from the beginning would help to detect and prevent fraud. I do believe there has been much more coordination by all parties since the “Great Recession” to prevent and detect fraud early in the process. And, I think the reduced amount of fraud in the industry shows that, but there are always going to be those trying to game the system with fake information. So, the more questions that can be asked, multiple times, and the more documentation that needs to be provided, and also possibly multiple times, the more likely the fraudster will be caught in their lie.

INTERVIEW [Reference Material] 3: Title Insurance Company

Brief Profiles:

“Marco Polsinelli is the President of the Canadian Division for Stewart Title Guaranty Company, a leading global provider of title insurance. Under his leadership, Stewart has become a trusted partner to many stakeholders in the real estate industry looking for expertise, innovative products and technical solutions.” [My relationship was with Wayne Lipton, who was called to the Ontario Bar in 1986. For over 25 years he acted in progressively senior roles at Stewart Title Guarantee Company, most recently as Vice President, Senior Counsel, Commercial Division. He retired effective December 31, 2024, and was honoured by Stewart Title’s posting stating: “Wayne is a giant in the Canadian title insurance industry as an early and prominent figure in demonstrating the value of title insurance in the Canadian real estate market. He is a well-known and well-respected advocate for protecting the role of legal professionals in real estate transactions ...”] Kelly

Rodgers, legal counsel - Stewart Title Group company (“STG”) - provided the collateral material from which the questions and answers were drawn from STG’s corporate presentations. Other than summarily, the material is not to be used further, nor quoted in any citation accordingly.

3. Title Insurance Company

1. What is the role of title insurance companies in protecting against mortgage fraud.
 - Establishing title insurance policies to safeguard against a multitude of risks, including losses from many forms of title fraud.
 - While title insurance coverage can eventually provide relief to affected parties, it is essential to recognize that for property owners and their lenders, falling victim to title fraud can be devastating and extremely stressful, a situation they would undoubtedly prefer to avoid, despite the availability of insurance coverage.
 - In this regard, title insurers dedicate substantial resources to detection and prevention efforts to stay ahead of potential risks and mitigate title losses. These efforts include continually adapting underwriting protocols, delivering regular employee and client education, and proactively communicating red flags and other alerts.
2. What are the most common types of mortgage fraud?
 - Identification impersonations and/or fake IDs
 - Fraudulent mortgage registrations
 - Fraudulent transfer of title to innocent purchasers
3. How/when do mortgage frauds usually come to light?

- The homeowner is refinancing their home and discover the title is 'compromised'
- The homeowner is notified by the lender
- The homeowner receives property insurance documentation from a company they do not use
- At times, the title insurance company may be the first to tell a homeowner that they are the victim of title fraud:
 - o Often after-the-fact
 - o Title fraud involving a mortgage can be found up to a year later
 - o Delay is used by organized crime groups to hit an area and then move on
 - o Most major real estate markets are targets

4. What may be some indicators of title fraud, especially to lawyers?

- Client is difficult to contact; calls are returned at peculiar hours/by someone else
- When the actual owner is not directly involved with the transaction
- Lawyer being used is well outside the area of the property is located; first-time client
- New property insurer; no real estate agent/brokers involved; no corresponding lawyer
- Rental/vacant properties are targets: appraisals/viewings easier, less noticed

5. What are the 'Top 10 Red Flags' regarding Real Estate & Mortgage Fraud?

1. Funds being directed to other than titleholders, or to priority encumbrances, or overseas
2. Client is evasive; doesn't want to meet in-person nor on a video call
3. Short-term mortgage, with no regular payments
4. Property is currently mortgage-free
5. Property owned for many years by the same person
6. Pressure to 'act' quickly
7. Client willing to accept an unusually high interest rate, presumably to invest funds
8. Property is vacant or tenanted
9. Preliminary search reveals unusual title activity – including frequent mortgaging
10. Family members appear to be putting pressure to obtain the mortgage

6. What happens when you have a potential mortgage fraud?

- Immediately assess the situation; an investigation must be conducted expeditiously
- There is no specific timetable; follow the evidence; it can be time consuming
- Preserve details and documents as memories fade and the process can be lengthy

7. What is typically involved in a mortgage fraud investigation?

- Interviews with the homeowner; borrower (if not the homeowner); lender
- Interactions with lawyers involved
- Interactions with mortgage brokers/agents

- Contact with police

8. What internal controls or data verification processes are used to validate title authenticity?

- Verification teams review and analyze relevant details of real estate transactions to identify potential indicators of title fraud
- We work together with legal professionals to help prevent fraudulent and suspicious transactions from happening
- We use multi-factor ID-Verification (e.g., Treefort) in helping lawyers and underwriters to confirm the identity of parties involved in a transaction; the refusal of a client to complete an ID-V without legitimate reason may be a red flag in itself

9. What are some misconceptions about title insurance coverage?

- The belief that coverage is a 'one size fits all' - policies are not standardized and can vary significantly; generally, coverage protects against things like problems with the ownership of the title, liens, fraud, or survey issues, i.e. relating specifically to 'title'
- A common misconception is that title insurance protects against future problems, such as zoning changes or code violations, which is not the case
- Coverage does not extend to things like unpermitted work, vendor misrepresentations, or structural defects (the purpose of home inspections)
- Quick resolution to problems - insurance claims usually have lengthy legal formalities

10. How do you collaborate with lawyers, land registrars, or lenders when fraud is suspected or uncovered?

- Article By: Marco Polsinelli March 11, 2024

[<https://www.canadianlawyermag.com/practice-areas/real-estate/title-fraud-out-of-sight-shouldnt-mean-out-of-mind/384235>]

- “Last year title fraud made headlines across Canada. The stories involved individuals and members of organized crime groups using high-quality, forged identification to fraudulently sell or mortgage properties and steal millions of dollars. Vacant, tenanted and mortgage-free properties, as well as elderly and other vulnerable individuals were the most targeted. Although media attention has moved on, title fraud remains. Fraud Prevention Month provides an opportunity to revisit how we can fight back against this crime and why the legal professional’s role in real estate transactions is more essential than ever.”
- Our Underwriting Team adapts to evolving criminal schemes and implements practical and proactive measures around detection and prevention. While we look at many key indicators to spot a bad deal, impersonation is the leading issue.
- “Legal professionals continue to be targeted by individuals claiming to be legitimate vendors or borrowers. This places a tremendous amount of pressure on law firms to have many checks in place--even after a deal has passed through the mortgage broker, realtor and lender. As gatekeepers of the transaction, legal professionals play a critical role in safeguarding the integrity of the real estate deal and that should not change.”

- “Recognizing that identifying fraudulent ID is one of the most effective ways to stop criminals, law societies and regulatory bodies have been issuing new guidelines around the authentication of ID. In response, many law offices have adopted new tools and processes to help protect their practices and clients. When legal professionals actively engage in title fraud prevention, it benefits everyone involved in the real estate ecosystem.”

11. Provide a specific example of prevention of a mortgage title fraud (no names)?

- Our verification team was examining a parcel of mortgage-free vacant land
- The privately refinanced mortgage transaction was being flagged for additional review and required further documentation to verify the identity of the borrower
- After completing a driver’s license check, it was revealed that the license originally presented as ID was not valid. Additionally, the borrower wanted the funds to pay down debt, however there was no indication of any debts
- After further examination, it was conclusively determined that the true owner of the property was being impersonated. Our Verification Team - working with other professionals - prevented a potential mortgage title fraud

12. What is currently ‘going on’ in Canada to aid in preventing/detecting mortgage fraud?

1. **Federation of Canadian Law Societies:** Amended the Model Client ID Rules in March, 2023
2. **Law Society of Alberta:** Retired and then reinstated the COVID Emergency Measures in the summer of 2023

3. **LTSA: Land Title and Survey Authority [B.C.]** Retired the COVID Emergency Measures effective September 30, 2023
4. **Law Society of Ontario:** Amended its Rules on client identification effective January 1, 2024
5. **Law Society of Manitoba:** Amended its Rules on client identification effective January 1, 2024
6. **Nova Scotia Barristers Society:** Will amend its Rules on client identification effective March 31, 2024
7. **Law Society of Newfoundland and Labrador:** Published new Rules for remote meetings
8. **Quebec:** Bill 34, An Act to Modernize the Notarial Profession
9. **FSRAO:** Financial Services Regulatory Authority of Ontario Published new guidance on client identification
10. **FINTRAC:** Amended the PCMLTFA [Proceeds of Crime (Money Laundering) and Terrorist Financing Act] Regulations to add mortgage brokers and mortgage administrators effective October 11, 2024

INTERVIEW 4: Institutional Lender

Brief CV:

My name is Sam Duong, a practitioner in mortgage (and home Lines of Credit) lending with a Tier 1 - Canadian Bank [CIBC], for over 15 years. My practice area focuses on southwestern Ontario. I am not a mortgage broker, nor do I accept leads from outside of the bank's direct client ecosystem.

4. Institutional Lender

1. How does your institution screen for mortgage fraud during underwriting?
 - Two main processes of Pre-Adjudication take place: I.D. and Income verification which make up the primary area of focus at the origination stage of secured lending.
 - I.D. checks include:
 1. Where did the lead originate and from whom?
 2. Was it new client initiated or existing client driven?
 3. Was the initial point of contact in-person or remote?
 - Income checks include:
 1. Income verification has to be direct (not remotely done).
 2. A basic check is performed, then any suspicions are escalated to a security department. Internal security may perform font or spacing checks on NOAs (notices of assessment from CRA); spelling errors; or even the Finance Commissioner's initials' type-set.
 3. Ultimately, it may escalate to 'legal,' where even an approved loan - funded or not - may be rescinded.
2. What internal controls or risk management systems are in place to detect fraud?
 - Subsequent to Pre-Adjudication AML (anti-money laundering) and Internal Audits may take place. These are outside of my scope as to how they work and how often and effective they are.
3. Which types of mortgage fraud are most prevalent in institutional lending?

- False I.D.s and Proof of Income documents are the most common from what I have seen.
- I have benefited from 15 years in the business, which is to say I know my clients (KYC), hence I have only ever had one loan application refused due to unverifiable information. The details were not provided to me from internal security other than to say that the Loan Application was 'pulled.'
- False I.D.s may be used for opening bank accounts, but it is much more difficult to use them when attempting to access financial products, such as mortgages or loans.

4. How do automated systems and AI tools assist in detecting anomalies or red flags?

- It is not prevalent at my level of activity yet, but I anticipate it to become more visible and active.

5. How do you differentiate between negligence and fraud in borrower representations?

- At the Pre-Adjudication level common sense is applied when assessing negligence (i.e., error or embellishment) versus fraud (deliberate deceit). For example, if a client states their income as \$84,000.00 p.a. (rounding \$6,800.00/month, i.e., actually \$81,600.00), I'd consider it practical or convenient. Whereas, if a client states their income as \$120,000.00 p.a. when it is actually \$90,00.00 p.a., it would be subjected to further scrutiny.
- We check letters of employment; T1s (personal tax returns); T4s (annual pay slips for T1s); pay stubs reconciled to T4s; and frequency of pay stubs. If things do not vet out we go to a secondary review.

- A secondary review would seek to reconcile anomalies, e.g., was the client newly employed, on a maternity leave, or sick leave – our security team performs the secondary assessments.

6. How significant is the role of mortgage brokers in the fraud landscape?

- Mortgage Brokers play a more significant role in ‘Tier 2’ lending, i.e., clients that do not fit the risk profile sought by ‘Tier 1’ lending institutions, that are typically chartered ‘A’ banks.
- Mortgage Brokers are incented to secure financing for their clients, the borrower (mortgagors), not necessarily the banks (mortgagees). As such, it is counter-intuitive to the banks’ interests.
- While some chartered ‘A’ banks will deal with mortgage brokers, we choose to deal with our own feeder system. We encourage/incent our staff to promote our mortgage services to our existing customer base, incenting them to do so.
- It is similar in concept to mortgage brokers, but the incentive system is aligned with our priorities.
- We also avoid a lot of “garbage” through this streamlined process, making it more efficient.

7. What role does credit risk scoring play in fraud prevention?

- It is an internal function which plays a ‘culling role’ in risk assessment.
- It is part of a Risk Matrix system that allows a client to progress along our mortgage application system.

- We used the Equifax system for credit profiling but their ‘outages’ became problematic for our through-put, hence we switched to Transunion who were more responsive.
- As part of our betterment process we are experimenting with our own internal scoring system, but it is a work-in-progress, hence we place less weight on it at this point.

8. Are there known gaps or workarounds that fraudsters exploit in institutional processes?

- One of the challenges is when fraudsters work with lawyers and/or property owners to circumvent institutional processes. It is more difficult to vet the information provided – while we have our processes, at some point we have to rely on the transaction system to effect mortgages.
- The I.D. verification process at the front-end and back-end of the transaction process, and background checks & balances, assist in mitigating the challenges with a circumvention of the transaction system.

9. What is the protocol if fraud is discovered post-funding?

- If fraud is discovered pre-funding the file is referred to a manager who will takeover the process; if it is discovered post-funding a manager will take the file to our internal security system, after which I would have no further responsibilities other than to support the investigative process if requested to do so.

10. How do you coordinate with law enforcement or regulators when a fraud is detected?

- Internal audit takes over the file; the funding process necessarily stops; I'd have no further knowledge; and presumably, the legal department gets involved.

11. How do fraud losses impact institutional portfolio performance?

- While it is a 'big issue' I am not apprised of the numeric impact; qualitatively, it raises the rigour of the scrutiny process.
- The bank has done a very good job at preventing, pre-empting flawed applications for secured financing.

12. Do you believe current government-backed mortgage programs are vulnerable to fraud?

- As a general comment, yes.
- The CMHC provides additional guidance to the bank with respect to highly leveraged real estate transactions, but they ultimately take on the risk beyond the bank's tolerance for risk.

13. What are the regulatory requirements for fraud detection and reporting?

- I am unaware as it is out of my purview.

14. How has your institution's approach to fraud changed over the last 10 years?

- The environment for secured real estate lending has changed significantly.
- The ability to transact remotely, effectively has opened a new frontier.
- I.D. checks is an area of particular focus.
- I.D. verification is a cyclical process - front-end and back-end - and may be handled by a relatively new department – the Remote I.D. Department.
- New client verification is much more rigorous than it once was.

- Concerns include AML (anti money laundering), and foreign sources of funds.

15. What would you recommend as the most impactful policy reform to protect lenders?

- A mandatory, confidential shared information system to stay ahead of the new ‘schemes’ that penetrate into and compromise the mortgage lending system.
- 15 years ago, a mortgage transaction would take between 1 – 2 days (including the appraisal) to complete.
- Now, it may take 5+ days to complete, slowing down throughput and making it more difficult, for example, for a home buyer to effectively process a home purchase transaction. While pre-approved mortgages have helped streamline the system, challenges remain.

INTERVIEW 5: Mortgage Fraud - Perpetrator

Brief Profile:

My name is ‘John Doe,’ a former senior-executive in secured financial products with a trust company for over 10 years, many years ago; I am in a similar business now, but in the private sector. The company I worked with was involved with a ‘financial mortgage and other financial fraud’ that resulted in significant financial losses to customers. The financial damages - in part unintentionally - were the result of a lax mortgage ecosystem ineffective in pre-empting the company’s compulsions, and addressing mortgagors’ needs, resulting in the financial malfeasance.

5. Mortgage Fraud Perpetrator

1. When did you first recognize that the company was committing a mortgage loan transgression?
 - When the funding of a particular mortgage took place well after the registration of a second mortgage on a property. As well, a secured business loan was registered but funded at the time of registration, as it should be done.
2. What part of the transaction process do you believe allowed the company to exploit the system?
 - The use of corporate authority and indoor management authority permitted the transactions to occur without a proper check on the substance of the signing authorities.
3. Was the company working with professionals (lawyers, brokers, agents) during the transactions?
 - Not at all times, which is what perhaps permitted the transactions to occur without resistance.
4. What actions did the company take to distract others from the fraud?
 - In one instance, all of the relevant parties were in the same office building permitting everyone to have access to everyone else's mail, etc.
5. How responsive were authorities or financial institutions in pursuing your case?
 - The authorities could only deal with the facts that were presented to them, well after the transgressions occurred; in the subject instance, the victims were re-victimized.

6. What challenges did the company face in trying to divert attention from its situation?

- The desperation of the victims was such that they persisted in pursuing the matter politically, which required the company to respond to political pressure, but not legal nor financial pressures.

7. How has the experience affected you emotionally and/or financially?

- Over time an ambivalence developed in me as a way of coping with the never ending 'air' of the story. Financially, having been associated the company and its fallout, I had to go into business for myself (in the private sector) as my professional career was effectively ruined.

8. How did the company sidestep any red flags otherwise created, and in hindsight that you missed?

- The benefit of the company being able to influence the timeline of the time-agnostic litigation process allowed the red flags to eventually become inert, hence mute. In short, luck.

9. What institutional mechanisms could have prevented the fraud, or detected it earlier?

- The requirement of verifying authority over the transaction process, and independent verification of the veracity of the documents would have likely prevented the transgressions. As well, the requirement to use licensed professionals in the process would have prevented a loose approach to the registration processes.

10. What legal or financial repercussions did you or the company face, if any? Would you consider it harsh?

- The victims ultimately had to concede their position due to lack of financial means and substantive evidence, hence there were no financial repercussions other than costs; perhaps even financial gain. The transaction process has improved over the years but so has the sophistication of opportunists.

11. Were you offered opportunity for contrition, restitution?

- A settlement agreement negated the need for any concession on the part of the perpetrator.

12. Do you feel that the systems in place adequately protected consumers then? Now?

- Then, no! Now, the system has come a long way in verifying the bona fides of the participants in a transaction, hence their respective authority to act, particularly when it involves corporate officers.

13. What message would you share with others to avoid the compulsions of fraud?

- Implement a strong system of internal control, staff with integrity (especially senior staff), and a strong culture of ethics!

14. Did the fraud involve identity theft, forged documents, or insider collaboration?

- Yes; most of the above. The identity theft amounted to impersonations; no actual forged documents, but receiving documents intended for someone else; and using staff to assist in deceiving the victims and diverting relevant documents.

15. What changes would you like to see to help prevent others from perpetrating fraud?

- The single most important aspect of preventative measures is thwarting identity theft or impersonation. The participants need to be vetted-out properly to establish their bona fides.

INTERVIEW [Substitute] 6: Mortgage - Title - Fraud Victims

Brief Profile:

[Our] assumed names are Stephanie and Derrick - real names not disclosed due to identity theft issues. "Stephanie and Derrick moved overseas for work about four years ago [circa 2019] and had been renting out their fully-furnished Etobicoke home as an income property while abroad, they told CBC Toronto." [<https://www.cbc.ca/news/canada/toronto/home-sold-says-system-failed-them-1.6726043>] Their Story as covered by CBC Investigates, follows:

6. Mortgage - Title - Fraud Victims

Couple whose Toronto home sold without their knowledge says systems failed to protect them.

Stakeholders call for multi-factor ID verification to protect against real-estate fraud

[Nicole Brockbank, Farrah Merali, John Lancaster · CBC News · | Last Updated: January 27, 2023]

When Stephanie logged online to pay her monthly bills last year she noticed something strange.

The mortgage she shared with her husband, Derrick, had disappeared from the home screen of her Canadian bank account. After making some calls, she found out her mortgage was closed.

"We knew something was wrong. We weren't the ones to close our mortgage," said Stephanie.

"But we didn't know the extent of it."

Stephanie and Derrick moved overseas for work about four years ago and had been renting out their fully-furnished Etobicoke home as an income property while abroad, they told CBC Toronto. The couple intended to move back in when they eventually returned home to Toronto.

But after finding out about the mortgage, things went from bad to worse. The couple's property management company swung by their house only to have a stranger answer the door claiming to own the home.

And it turns out - when Stephanie and Derrick checked the title - the stranger did.

"That was probably when it really hit home that this wasn't just some mistake," said Derrick. "But legally, the system believes you actually no longer own your home."

Stephanie and Derrick's predicament made headlines earlier this month when Toronto police issued a press release for help identifying suspects involved in the fraudulent sale of the couple's home without their knowledge. **CBC Toronto is not using Stephanie and Derrick's real names because they are the victims of identity theft.**

The couple's case is one of at least four in the Greater Toronto Area where homeowners had their houses sold out from under them by organized crime groups, according to a CBC Toronto investigation. Nearly a year after discovering something was wrong, Stephanie and Derrick are sharing their story to sound the alarm on how they say **current**

identification requirements in real-estate transactions are failing to protect homeowners from fraud.

"All the things you need to provide to buy a house, no one ever checks if those match up when you sell a house," alleges Derrick. "You trust these institutions to protect you and it feels like they're doing whatever they can to do things as fast and as cheap as possible."

The couple says the fraudsters who impersonated them to sell their house consistently spelled one of their last names wrong through the transaction, which was inconsistent with the fake ID they were using.

"I think that's what scares you most," said Derrick.

"You think well, if the bank fails, the real estate board will catch it. Or if the real estate board fails, the lawyer who signs off on the house sale will catch it. And so many people, so many educated people, it just passes by."

Photo ID is not enough: title insurer

Some real-estate industry stakeholders are also calling on the province and professional oversight bodies to **strengthen identification requirements to try and stop these title transfer and mortgage frauds in their tracks.**

But as it stands, real estate agents, brokers and lawyers are only required to collect one piece of government-issued photo identification to verify clients are who they say they are - or review an approved alternative method of identification, like a Canadian credit file.

"The problem we have in Canada right now is that there's no such thing as valid ID anymore," said John Rider, senior vice president of Chicago **Title Insurance** Company in Canada.

"How can someone borrow \$2,000,000 to buy a house with a simple piece of plastic that can be easily forged? It just shouldn't be happening."

Rider works for one of four title insurers operating across the country and says claims like Stephanie and Derrick's, **along with mortgage frauds**, have cost the industry at least \$200 million in the last two-and-a-half years.

Title insurance also covers unwitting buyers in title transfer frauds who can recover the funds they put toward purchasing a house through a fraud claim.

Multi-factor approach 'catches most fraudsters'

Instead of relying on one or two pieces of ID, Rider argues **a multi-factor identification process should be adopted for all real-estate transactions**. The process would require a combination of photo ID verification, a credit report search, and checks on the cell phone number provided to make sure it isn't a burner phone.

"This multi-factor catches most of the fraudsters," he said. "We're finding most of the time that the fraudsters get caught up, it's on the cell phone number."

Morris Cooper, a civil litigation lawyer in Toronto who successfully argued a landmark case of mortgage fraud in 2006, also says more strict forms of identification would address the root of these problems.

"There's nobody compelling the lawyers, for example - who are clearly a gatekeeper - to require that higher level of identification for their clients," said Cooper.

Last year, the Law Society of Ontario ("LSO") added two additional options for ID verification to its bylaws - in an effort to fight money laundering and terrorist financing - but **does not require lawyers to check a combination of the verification methods.**

CBC Toronto asked the LSO whether it's considering modifying the ID verification requirements for lawyers in the province so they involve multiple factors. In an email, spokesperson Wynna Brown said Ontario's verification requirements are consistent with the rest of Canada.

"Along with our colleagues across the country, we continue to follow and monitor this matter closely," said Brown.

Updated realtor code of ethics coming this spring

Real estate agent and broker client verification requirements stem from provincial legislation and federal and provincial guidelines. CBC Toronto asked the Ministry of Public and Business Service Delivery whether it's considered bolstering ID requirements in its legislation to fight real-estate fraud.

In a statement, a Ministry spokesperson said an updated code of ethics for realtors under the Real Estate and Business Brokers Act will come into force on April 1.

The Ministry says the code will include a specific provision related to fraud. But the statement didn't mention any changes to enhance ID verification requirements, beyond requiring "agents to make best efforts to ensure representations made during a sale are accurate."

A spokesperson for the Real Estate Council of Ontario ("RECO") also said it "will be reminding agents to be vigilant" in confirming IDs "in light of recent events."

Couple wants action from province

"We need tougher laws and we need [the] government to protect its citizens more from this type of crime that is increasing in prevalence in Ontario," said Stephanie.

The couple said they are thankful they had title insurance on their house to cover the costs related to getting the house back or receiving the sale price of the property. But they say even that protection doesn't insulate you from everything.

"It also doesn't account for the house being sold under market value ... if fraudsters are looking to make a quick buck," said Derrick. "You get what it's sold for, not what it's worth."

The couple are close to resolving the situation with their house, but say the trauma from the experience won't go away any time soon.

"It feels like it'll never be done," said Derrick. //

APPENDIX E – Glossary of Terms

AI	Artificial Intelligence
AML	Anti-Money Laundering
APIs	Application Programming Interfaces
ATR	Ability-to-Repay Rule
BCFSA	British Columbia Financial Services Authority
CAFC	Canadian Anti-Fraud Centre
CanLII	Canadian Legal Information Institute
CFPB	Consumer Financial Protection Bureau
CMB	Canada Mortgage Bonds
CMHC	Canada Mortgage and Housing Corporation
CRA	Canada Revenue Agency
DOJ	Department of Justice [U.S.]
E&O	Errors and Omissions (professional liability insurance)
ERM	Enterprise Risk Management
Fannie Mae	The Federal National Mortgage Association [U.S.]
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FCAC	Financial Consumer Agency of Canada
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration

FHFA	Federal Housing Finance Agency
FICO	Fair Isaac Corporation [FICO Credit Score]
FinCEN	Financial Crimes Enforcement Network
FinTech	Financial Technology
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
Freddie Mac	The Federal Home Loan Mortgage Corporation [U.S.]
FSLIC	Federal Savings and Loan Insurance Corporation
FSRA	Financial Services Regulatory Authority of Ontario
GSEs	Government-Sponsored Enterprises
HUD	Department of Housing and Urban Development
IFA	Investigative Forensic Accounting / Accountant
KYC	Know Your Client
KYP	Know Your Product
LTV	Loan-To-Value Ratio
MBS	Mortgage-Backed Securities
MFs	Mortgage Facilitators
MLS	Multiple Listing Service
MORC	Motive, Opportunity, Rationale, Capacity
MOUs	Memoranda of Understanding
NMLS	Nationwide Multistate Licensing System
NOAs	Notice of Assessments
OCC	Office of the Comptroller of the Currency
OCR	Optical Character Recognition

OSFI	Office of the Superintendent of Financial Institutions
PDF	Portable Document Format
PDR	Preventive, Detective, Remedial
PIAC	Public Interest Advocacy Centre
PIPEDA	Personal Information Protection and Electronic Documents Act
QM	Qualified Mortgage Standards
RCMP	Royal Canadian Mounted Police
RegTech	Regulatory Technology
RESPA	The Real Estate Settlement Procedures Act [U.S.]
RPA	robotic process automation
RTC	Resolution Trust Corporation
S&Ls	Savings & Loans
SARs	Suspicious Activity Reports
SAS	Statistical Analysis System
STRs	Suspicious Transaction Reports
TCPS2	The Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans
TILA	Truth in Lending Act [U.S.]
TRID	TILA-RESPA Integrated Disclosure Rule [U.S.]

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