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July 4, 2009

## Straw homebuyer scheme is illegal

Melanie came to her lawyer's office in tears. Two years earlier she had received \$5,000 from a "friend" to allow her name to be used on the purchase of a property by someone who could not qualify for bank financing.

She signed some papers, which were not explained to her, and received \$5,000 for an hour or two of her time. It was the easiest money she ever made.

She heard nothing more about the house until she was served with court papers demanding repayment of the mortgage. Her lawyer explained that the mortgage on the house she bought was tens of thousands of dollars in arrears, and she was personally responsible for the debt.

She stood to lose her own house and car, and her wages would most likely be garnisheed. She was facing personal bankruptcy.

Unfortunately, Melanie had fallen victim to the straw purchaser scam. It's become so common these days, that one Ontario title insurer last month announced that it would no longer insure transactions which match the profile of the scam.

Here's how it works. An individual with good credit is offered a sum of money which can be as much as \$10,000 to go through the motions of buying a property. The individual lends his or her name and credit by acting as a dummy or "straw" buyer of a property for someone else. Typically, the scheme enables the "purchase" of a property by a third party, such as a tenant, who would not otherwise qualify for a mortgage.

An alternate purpose of the scam is to allow a defaulting owner to remain in the property. The previous mortgages, which are in default, are refinanced using the straw buyer, and the process cancels the inevitable eviction.

The new mortgage lender is not aware that the person signing for the mortgage is really fronting for someone else and has no intention of paying it back. Often the "borrower" has no idea what documents he or she is signing.

The straw buyer becomes the registered owner of the house. He or she makes no financial contribution to the purchase and has no intention of living there or managing it. Their only involvement is to apply for a mortgage loan and sign documents at closing as if he or she was the real buyer and never makes mortgage or tax payments.

If the house is rented, he or she never collects rent from the tenant.

The straw buyer may be a stranger to the third party, or there may be a prior relationship with him or her. If the tenant or "true owner" defaults on the mortgage, the straw buyer the one with the previously good credit, like Melanie is surprised to find himself or herself at the wrong end of a lawsuit for mortgage arrears and the lender's loss when the property is sold.

Mortgage fraud by straw buyers is being monitored by the Criminal Intelligence Service of Canada (CISC), an inter-agency organization that coordinates and shares information with member police forces.

According to a CISC report in 2007, the use of straw buyers is often linked to mortgage fraud and organized crime in Canada.

Some straw buyers are not innocent. A straw buyer, CISC says, "pretends to be a legitimate buyer for a property but in reality is in collusion with another criminally inclined individual to further a mortgage scam. The straw buyer often uses fake or stolen identification to prevent being traced."

Criminal groups, the report notes, often seek out vulnerable or criminally inclined individuals to use as straw buyers. The targets that are recruited or coerced are often newly arrived in the country.

The bottom line is that participating in a straw buyer scheme is illegal. It can result in personal bankruptcy and jail.