

# Be aware of these RED FLAGS

**T**he term RED FLAG is used in this article to indicate an unusual practice or factor that may indicate a possible fraud, or the potential of one.

Where RED FLAGS are present (or suspected) they should be viewed and examined not in isolation, but as a whole. One indicator is a concern; a few indicators raise the concern substantially. The more RED FLAGS present or uncovered, the greater the cause for concern and exposure.

In today's marketplace, parties involved in realty transactions increasingly rely on others for due diligence. Whether or not this is a preferred approach is not the issue. The issue becomes whether or not someone failed in his or her responsibilities. Is there or was there something that a 'typical' appraiser should have noticed, investigated, commented upon or advised the client of, that may have prevented a 'fraud?'

Some examples of RED FLAGS:

- You call for the appointment and the owner has no idea what you are talking about.
  - This could and has happened when a spouse is a developer, for example, and often uses the matrimonial home as short-term collateral, but it is rare.
- Difficulty in obtaining information from the 'owner.'
- If the applicant is difficult to contact, has only a cell number, and you have concerns about their legitimate ownership of the property:
  1. Ask for a copy of a survey, utility bill, assessment notice, tax bill, or cable TV bill. An applicant should at least have a utility, telephone or cable TV bill.
  2. Is the name the same on each item and also the same as the applicant's name?

- Inconsistency with owner and property
  - Does it 'feel' to you that the property is 'inconsistent' with the applicant that you meet?
  - Does the applicant appear nervous or concerned over the time that you are taking on your inspection?
  - When inspecting, are the 'typical' items present, such as kitchen utensils, or are the clothes closets empty?
- Property changes ownership over a short period.
  - This can happen. But did the price or reported price increase without a valid reason such as renovations?
  - If the property reportedly sold and resold, who were the vendors and purchasers? Were they numbered companies? Were the surnames the same or similar? Who was the real estate agent? Did the same agent act for all parties? Did the same real estate company list and sell in each instance?
  - If this is a sale, do you have a copy of the sales agreement, and is it 'normal,' i.e., does it include chattels or other considerations?

As the appraiser, it is up to you to assign various weights to these items. On its own, the existence of any of these factors may be explained. Perhaps even several of these could be legitimate. But, on the whole, and taken in perspective, the presence of some of these factors should be a warning to you.

It may not be your responsibility to identify the presence of a possible fraud, but, it is you who attended the property, it is you who saw or spoke with the owner, and it is you who some will look to if and when

there is a provable claim.

Look for these and other RED FLAGS, advise the lender of your concerns, and keep a record of the incident.

We live in litigious times. Ensure that you have done your due diligence and properly reported to your client. Hopefully, your client will appreciate your professionalism and the 'extra value' you add to the report. Even if they do not, you will know you have gone the extra step to set yourself above the norm. It is guaranteed your insurance company will recognize and appreciate your efforts.

Ask probing questions and use your judgement. You are the professional. Ask yourself if this makes sense? If the answer is "no," then, as a professional, you should investigate further until the concerns are resolved. If any doubt remains or if you cannot obtain satisfactory answers, it is incumbent upon you to advise your client. ☹

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