



April 26, 2023

Financial Services Regulatory Authority of Ontario
contactcentre@fsrao.ca

Re: Proposed Guidance on Detecting and Preventing Mortgage Fraud

To Whom It May Concern:

On behalf of the Appraisal Institute of Canada (AIC) and more than 5,600 valuation professionals, we are pleased to have the opportunity to make a submission in the context of the public consultation on proposed guidance on detecting and preventing mortgage fraud.

As you may be aware, AIC is the premier real property valuation association in Canada. Founded in 1938, AIC is a self-regulating professional organization that grants the distinguished Professional Appraiser (P.App) trademark accompanied by either the Accredited Appraiser Canadian Institute (AACI) or Canadian Residential Appraiser (CRA) designations to individuals across Canada and around the world. Our members adhere to the nationally and internationally recognized Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) and are respected worldwide for the rigorous designation program and ongoing professional development requirements.

AIC is committed to working with governments and stakeholders within the real estate industry to ensure all parties involved in a real estate transaction are protected and well-informed when making lending, purchasing, sales or investment decisions. We believe our Members can play a vital role in every type of real estate transaction by providing an independent, third-party value opinion. These unbiased opinions are based on strong valuation fundamentals that support a sustainable and healthy marketplace that protects and informs lenders, insurers and all Canadians.

We want to begin by expressing our support to FSRA for their continued efforts to deter deceptive and fraudulent practices in the industry. AIC is in support of action taken to combat fraudulent activity.



As it relates to the proposed guidance on detecting and preventing mortgage fraud, we recommend the following revisions:

Under the Appraisals heading (*brokers and agents should ensure*), the second and third bullets should be merged to read as the following:

- The appraisal is not older than 3-6 months, especially during periods of real estate market volatility.

Under the same heading, the final bullet should read as follows:

- All high ratio or non-conforming real estate transactions must have an appraisal. Other situations may also warrant one. If there is no appraisal for the property, then they must explain why there is no appraisal.

The above proposed changes/additions reflect the fact that a property's condition can change rapidly regardless of whether there is volatility in the market or not. An appraisal older than 6 months may not consider any recent changes to the property's condition therefore resulting in a higher possibility of fraud. High ratio and non-conforming real estate transactions may also attract fraudsters trying to obtain a mortgage loan thus having an appraisal could uncover suspicious activity.

Further, as it relates to red flags for fraud, we recommend adding the following:

Sales and Listing History of the Subject

While the below points may not necessarily mean there is fraudulent activity and in fact may occur in many transactions, they are potential red flags that may warrant additional scrutiny.

- There is a pending sale.
- The purchase price is higher than the list price; practice caution in heated markets.
- The selling price appears high in comparison to the value range in the neighborhood.
- The previous sale price of the property was substantially lower, and the property re-sold within a short period of time.



- The property has changed ownership several times over a short period of time with a price increase on each change.
- In reviewing listings, offers to purchase, etc., the parties are identified as “undisclosed,” “Care of Listing Broker,” or “nominee”.
- The listing was cancelled on MLS prior to the sale (meaning the true sale price will be unknown).
- All or many units in a building are sold at the same time with coinciding possession dates.

Tampering with Appraisal Reports

- Appraisal fraud can involve a legitimate appraisal report that has been altered, look for:
 - o obvious signs of alteration of a report
 - o Any information fields that have been left blank in the report

We thank you for the opportunity to provide our feedback, and we would be happy to answer any questions you may have.

Yours truly,

André Hannoush

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