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September 2, 2006

Fraud, forgery alleged in mortgage scheme

Mississauga man faces charges

Complex property flips probed by RCMP

A Mississauga man has been arrested and charged with two counts of fraud over $5,000 and two counts of uttering forged documents in relation to mortgages obtained in 2001 on a property at 33 Earl Grey Rd., in Toronto.

John Anthony Stinziani appeared at Old City Hall court last month to set a trial date.

Announcement of the arrest was made by the Royal Canadian Mounted Police Greater Toronto Area commercial crime section. Police allege that Stinziani used fraudulent information to obtain and later default on about $250,000 in mortgage funds from two separate lenders.

Normally, the Toronto Police Service handles fraud investigations in this city, but the RCMP are believed to be involved because one of the lenders was insured by Canada Mortgage and Housing Corp.

A title search of the property conducted last week revealed a bizarre scenario. The house has been sold six times in five years. Four of those transactions were highly questionable, involving sudden and unexplained increases in value.

Sometimes this sort of transaction is called an "Oklahoma," or "value fraud."

It involves artificially increasing the value of a property so the mortgage lender is left with security that may be partially or entirely worthless.

The increase is often accomplished by a simultaneous purchase and resale (or flip) of the property. It can also be done without a flip by simply inflating the value of the property so that the purchase mortgage is more than the underlying value of the property.

Last week I went to see the outside of the house, near Danforth and Pape Aves. It is a tiny, semi-detached cottage-type bungalow on a street of impressive two-storey houses. The frame structure is about 712 square feet in size, sitting on a lot measuring 17 feet by 100 feet.

The mind-boggling title search shows:

Transaction 1. The property was purchased on June 14, 2000. The original deed (in the pre-electronic registration system) was typed showing a price of $115,000. That number was altered by hand to declare that the sale price was $135,800. The National Bank of Canada advanced a mortgage of $127,275 which if the underlying value was really $115,000 was significantly more than the house was worth.

Transaction 2. On April 5, 2001, John Stinziani bought the property with a declared price of $227,000. The Royal Bank advanced a first mortgage of $196,809, including the CMHC high-ratio insurance fee. (I wonder how the value of the property could have jumped so dramatically in less than a year.)

Two months after closing, a fraudulent discharge of the Royal Bank mortgage was registered. With the title now free of debt, the owner borrowed an additional $70,000 from a private lender.

That mortgage quickly went into default and I was retained by the private lender to start default proceedings. When I discovered the forged discharge of the prior mortgage, I referred the client to a colleague to pursue a claim against the title insurer, Stewart Title.

The Royal Bank obtained a court order restoring the registration of its mortgage.

An independent appraisal in 2002 showed the market value to be only $143,000 significantly less than the $227,000 price reportedly paid by Stinziani a year earlier.

Transaction 3. Stewart Title paid out the private second mortgage lender, took an assignment of that mortgage, and sold the abandoned house under power of sale in December 2002, for $125,000.

Transaction 4. Less than six months later, on June 4, 2003, the property appears to have doubled in value. It was sold for $249,500 by the purchaser company which bought it from Stewart. The Bank of Montreal financed that purchase.

Transaction 5. In February 2004, land title records show that the tiny bungalow on a 17-foot lot sold for an amazing $429,900. CIBC Mortgages Inc. provided a CMHC-insured loan for $394,628.20, which quickly went into default.

Transaction 6. Slightly more than a year later, CIBC assigned its mortgage to CMHC, and the property was sold under another power of sale to Ronald Male for $180,000. For CMHC, the loss on this loan was well in excess of $200,000.

Last week I spoke to Male and reviewed the price history with him over the phone. I asked him if the house might ever have been worth $227,00. "That's way out of whack," Male said. "It's just not worth that." Not to mention the $429,900 supposedly paid in February 2004.

Male told me he wanted to buy ``the ugliest house on the nicest street," and that's what he did. ``It's a good thing I got title insurance," he added.

In the meantime, it appears to me that the CMHC got stung not once, but twice, by two borrowers on the same house in situations where the declared purchase price appears to have exceeded the underlying true value of the property.

All this makes me wonder just how much investigation and due diligence today's mortgage lenders perform when they hand out gobs of money on home purchases.

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