

Request for Information from Cullen Commission

At pp. 1-176, there is a document entitled “Volume One: Money Laundering Threat Profiles.” a. Provide an unredacted copy of the portion of pages 55-56 of that document under the heading “Mortgage Fraud”;

Mortgage Fraud

Sophistication	Capability	Scope	POC	Overall Rating	Confidence
Very High	Very High	Very High	High	Very High	Medium

- Mortgage fraud occurs across Canada, but it is most prevalent in large urban areas in Quebec, Ontario, Alberta, and British Columbia. Mortgage fraud schemes are often undertaken to facilitate another criminal activity (e.g., drug trafficking, money laundering) or directly for profit.
- Some reporting suggests that OCGs conduct the vast majority of mortgage fraud in Canada. In 2013, 13 OCGs were involved in mortgage fraud. To carry out this crime, OCGs are believed to rely on the assistance of complicit individuals within the real estate sector. It appears that in certain regions of Canada there are networks of real estate professionals (agents, brokers, appraisers and lawyers) that specialize in servicing criminals’ needs. OCGs also frequently use straw buyers to orchestrate the mortgage fraud.
- OCGs conducting mortgage fraud schemes are, for the most part, also suspected to be highly sophisticated and capable in terms of the associated money laundering activity. Cases indicate that professional money launderers have been used to launder mortgage fraud-related proceeds. It is suspected that the crooked real estate professionals, notably the real estate lawyers, are likely used to facilitate money laundering. OCGs involved in mortgage fraud appear to launder funds through banks, MSBs, legitimate businesses, and legal trust accounts.
- The magnitude of the proceeds of crime being generated annually from mortgage fraud is estimated to be in the \$ hundreds of millions (high rating). This estimate is based on reports suggesting that about \$500 million is lost to mortgage fraud annually in Canada.
- The overall money laundering threat rating for mortgage fraud is very high. Mortgage fraud appears to be a very profitable enterprise for OCGs and the OCGs are suspected to have the sophistication and capability to launder mortgage-related proceeds through multiple sectors using a variety of methods. Facilitators in the real estate appear to be critical in perpetrating the mortgage fraud and the associated money laundering.

Level of Confidence

- The level of confidence of the ratings is medium. Additional knowledge (e.g., case examples) about the actual ML methods used by OCGs involved in mortgage fraud would further increase the level of confidence.

b. Provide an unredacted copy of the table entitled “Money Laundering Threat Ratings: Mortgage Fraud” at p. 63 of that document;

**Money Laundering Threat Ratings:
Mortgage Fraud**

Rating Factors	Rating	Rationale	Information and/or Knowledge Gaps
Level of Actors’ Sophistication	Very High	<p>90% of all mortgage fraud are perpetrated by OCGs – in 2013, 13 OCGs were involved in real estate fraud. The level of sophistication and organization of these OCGs vary but seem to be more on the high side as some schemes are quite elaborate. This may also serve in the conduct of ML.</p> <p>This type of fraud also requires the assistance of complicit individuals within the real estate, financial institution, mortgage brokers, and real estate appraisers sectors.</p>	
Level of Actors’ Capability	Very High	<p>As indicated above, actors involved in this crime have access to facilitators in the real estate and mortgage industry.</p> <p>Same brokers and agents are often used over and over again.</p> <p>Straw buyers are also used multiple times or just once – new immigrants can sometimes be taken advantage of and used as straw buyers</p> <p>Professional money launderers have been connected to such cases in the past.</p>	
Scope of ML	Very High	<p>As noted above, a number of complicit individuals within the real estate and mortgage sectors, as well as lawyers, can also be used to facilitate ML.</p> <p>ML methods through banks and MSBs, legitimate businesses can be used.</p> <p>Legal trust accounts may also be used.</p>	
Estimated \$ PoC	High	Estimate in the \$ hundreds of millions annually.	

c. Provide an unredacted copy of the portion of p. 75 below the heading “Mortgage Fraud,” including footnotes.

Mortgage Fraud⁸⁰

Organized Crimes Groups: According to the RCMP, 90 percent of all mortgage fraud schemes in Canada are perpetrated by OCGs.⁸¹ In 2013, law enforcement reported that there were 13 OCGs involved in real estate fraud.⁸²

Numerous criminal groups across Canada are involved in a wide range of mortgage frauds at varying levels. The criminal capabilities of groups involved in mortgage fraud vary in terms of sophistication. Some criminal groups also have an extensive criminal history in various frauds, ranging from counterfeit currency, payment card and cheque fraud to loan and real estate frauds. These groups may commit a limited number of mortgage frauds using relatively simple fraud schemes. Other more sophisticated criminal groups may undertake multiple fraudulent mortgages, ranging from several dozen to a hundred per group, in a series of complex transactions. OCGs continue to seek out individuals with specialized skills (insiders) in the real-estate and financial sectors in order to facilitate (knowingly or unknowingly) mortgage frauds.

A number of criminal groups involved in mortgage fraud seek out vulnerable or criminally inclined individuals to use as straw buyers. Some groups recruit (or coerce) individuals who are newly arrived to Canada to act as nominees on fraudulent mortgage applications. Some of these nominees are unaware that their personal information is being used to facilitate a fraud while others are afraid to raise objections. In return for the use of their name and personal financial information, the nominees sometimes live in the residence for a few months rent-free. Other, more unfortunate nominees are unknowingly left responsible for the mortgage which enters default after the mortgage funds are stolen by the criminal group.

Industry Insiders. Mortgage frauds commonly involve the cooperation of mortgage industry insiders. Any individual within the mortgage industry can potentially be involved in mortgage fraud; from the purchaser, vendor, real estate agent, and mortgage broker to the lawyer, credit agency employee, lender, and title insurer. These insiders may, for example, knowingly or unknowingly accept the use of false personal or financial information, use inaccurate appraisals, or transfer mortgage funds to an individual knowing they will be misused.

Footnotes:

⁸⁰ This section comes from CISC Strategic Intelligence Brief (November 2007). Mortgage Fraud and Organized Crime in Canada, unless noted otherwise.

⁸¹ Slide 5 of RCMP (March 6, 2014). The State of Fraud in Canada.

⁸² See page 9 of the CISC (2013). National Criminal Intelligence Estimate. Note that real estate fraud is potentially broader than mortgage fraud.