

INVESTING101 Agencies in place to help protect investors from identity theft and real estate fraud

Avoiding real estate scams

Richmond homeowner **Norman Gettel**, 71, was wondering why he had not received his yearly home assessment.

When he called the land titles office in Richmond, he was told that his \$600,000 house had been sold the previous year, with a \$400,000 mortgage registered against it. But Gettel was living in the house and had no intention of selling it.

In Gettel's case, someone had gone into a notary's office with fake ID to set up the sale of the house.

Eventually Gettel's title was restored; he was not on the hook for the mortgage, but his story remains a cautionary tale about how homeowners should protect their information to avoid identity theft and fraud.

Here are the basic precautions every real estate owner should take:

- Check your title and credit reports on an annual basis.
- Protect your identity: minimize the identification information and number of cards you carry; keep items with personal information in a safe place; shred all unnecessary personal information with a cross shredder; and do not give out personal information on the phone, by email or on the Internet.
- Consumers are encouraged to get a duplicate title. A lawyer, notary or real estate agent can obtain such a duplicate for a processing fee, in addition to any professional legal fees.
- If you own a rental property, screen your tenants to establish their identities, and ask for references.
- Be aware if you suddenly stop receiving mail. In the case of title fraud, the fraudsters may redirect your mortgage statements, thus tipping you off to possible fraud.

If you are considering title insurance and identity theft insurance as prevention, here is how they are defined:

- Title insurance covers all legal expenses related to restoring a title and is also available to existing homeowners long after they have purchased their properties. It provides protection against issues like survey defects, unpaid liens, encroachment issues, construction liens, defects in title, costs arising from building code violations, as well as real estate title fraud.
 - Identity theft insurance typically covers the cost of dealing with the bureaucratic problems that ensue from your identity being stolen.
- Real estate scams can take many forms, according to **Richard Gilhooly** of the **BC Securities Commission (BCSC)**. With this in mind, the BCSC has published an "Investor Watch" to remind people to do their research before they make a real estate investment.
- There are many types of real estate investments. Some of these investments classify as securities, while others do not.

The BCSC only has jurisdiction over transactions involving securities – an interest in a pool of mortgages, an interest in a pool of properties, etc. This is one of the reasons why you need to take your time to assess a real estate investment.

What are real estate-based securities?

Real estate-based securities trade as public and private companies. For example, you can invest in a real estate investment trust (REIT) that trades on a stock exchange like the **TSX**, or you can buy shares in a property when a company raises money through a private placement. The "Informed Investing" section of the BCSC website, at www.investright.org, details

INVESTING101



Photo: Better Business Bureau

Mark Fernandes, Better Business Bureau

Problem: House stolen by identity theft
Potential loss: \$600,000
Solution: Get a duplicate title
Best advice: Contact the Better Business Bureau at www.mbc.bbb.org

how different real estate investments are structured.

If you buy into a private placement, it is important to understand that you are largely on your own. This is because the company is raising capital through a series of private-placement exemptions from the prospectus requirement. A private company using these exemptions is not required to give investors the same ongoing disclosure (financial statements or press releases) as a public company.

How are real estate-based securities sold?

You can purchase a REIT through a registered financial adviser or on your own if you do direct investing. Since they trade on stock exchanges, you can buy and sell them in the same way you would do with shares of other public companies.

Private placements are generally sold without a prospectus (a formal document required by law when a company wants to sell shares to the public) and without the advice of a registered dealer. Sometimes companies sell these securities under an offering memorandum (OM), a document that provides information about the company and the investment. It's important to remember that securities regula-

tors do not review OMs before the investment is offered to the public.

What are the risks?

When real estate-based securities are distributed using exemptions, the risks are similar to those related to private companies.

There are also risks associated with the underlying real estate investment. First and foremost, you need to be aware that property values can go down. Additionally, there is the possibility that mortgage or rental payments will not be paid. Furthermore, developers sometimes run into problems – this could cause them to seek more capital, or they could go out of business altogether. All of these risks can affect the value of your investment and your expected returns.

What should you do before you invest in real estate?

Understand the risks associated with the investment. Be sure to do background checks on the developer and the person promoting the investment. Take the time to seek advice from someone independent of the investment, like a lawyer or a registered financial adviser.

Who to contact

If you're considering a real estate investment and you're not sure about it, give the BCSC a call. You should call immediately if you think an investment is a scam. The BCSC can be reached toll-free at 1-800-373-6393. You can also email inquiries@bcsc.bc.ca.

If you are a victim of title fraud: homeowners' land titles have limited protection by the Land Titles Assurance Fund, which is administered by the **BC Land Title and Survey Authority** office. To learn more, visit the website at www.ltsa.ca.

Read this complete column online at www.westerninvestor.com. ♦

Mark Fernandes is the strategic communications and public relations officer for the Better Business Bureau serving Mainland British Columbia.