

# The true Oklahoma deal

**I** am a bit of a stickler for language. People misuse phrases in real estate. Take the Oklahoma deal. We hear about it, but it has come to refer to any type of shady deal, instead of a specific act of greed. The expression is often heard in professional real estate circles, yet most people do not really understand the mechanics of this type of deal. It probably represents one of the meanest ways that an unwary homeowner can lose everything.

Simply stated, it provides a sharp and unethical buyer with a way to buy a home with nothing down and it leaves a seller holding the bag with worthless piece of paper which, although legally a mortgage, is virtually useless and without value.

## Think that it couldn't happen today? One similar scam just surfaced. Where was the vendor's lawyer?

Let's examine the mathematics of a hypothetical Oklahoma deal

- ① Sale price \$200,000
- ② Deposit with offer \$10,000.
- ③ Purchaser to pay to vendor on closing \$140,000
- ④ Vendor to take back second \$50,000
- ⑤ Purchaser to arrange a new first, OF NOT LESS THAN \$125,000

The unsuspecting vendor adds it up and the figures represent \$200,000.

Now here comes the con. The offer says that the purchaser is to arrange a new first mortgage of NOT LESS THAN \$125,000. Instead, the purchaser arranges a new first for 75 per cent of the value of \$150,000, or \$25,000 more!

Let's look at the deal with the new financing in place. Confused? Here's the breakdown.

## THE LEBOW REPORT



BY BARRY LEBOW

New first mortgage \$150,000  
Second mortgage (VTB) 50,000

Sale price \$200,000

Equity by purchaser: Zero!

Now comes a deeper rub. In some cases, vendors agreed to hold larger second mortgages, where they owed the purchaser money on closing. If the purchaser had brought in a phony or even a corporate name, then he could walk away from the deal and have money to his benefit. Look what happens to our unsuspecting vendor if he has to take back his property, which he sold for \$200,000.

Through default, the original vendor now reowns a home sold for \$200,000, but with \$150,000 in legitimate mortgaging. The amount of equity originally against the property is gone and the owner must live with a new first of \$150,000, which he did not have before. We did not count, of course, all legal fees and costs to redeem his original property. That loss will add thousands more to the costs.

Think that it couldn't happen today? One similar scam just surfaced recently and I thought that it had died. Where was their lawyer? That's what many unsuspecting homeowners all over Ontario have thought over many years. Fortunately today there are safeguards against this type of scam. Logically it constitutes fraud. The main protection for the homeowner are the consumer laws of the province. Any real estate agent who through ignorance or greed is involved in such a scheme would lose their

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registration and be liable for criminal charges. The vendor would probably collect through the legal system, but the time and costs would be great.

The best protection is to carefully read, reread and understand what your vendors are signing.

**Keep your suspicions up if a deal is presented to you that seems too good to be true.**

The Oklahoma deal is thought by many in real estate to have disappeared, but like a bad penny, every few years it turns up. Keep your suspicions up when a deal is presented to you that seems too good...Use a pencil and paper and work out the figures for yourself. Watch for trick clauses. Chances are you could sell hundreds of homes in your lifetime and never have a problem, but if you are the one in thousands taken in, then your vendor suffers. Remember the old axiom—"Let the buyer beware." In some cases it should be, "Let the seller beware!"

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