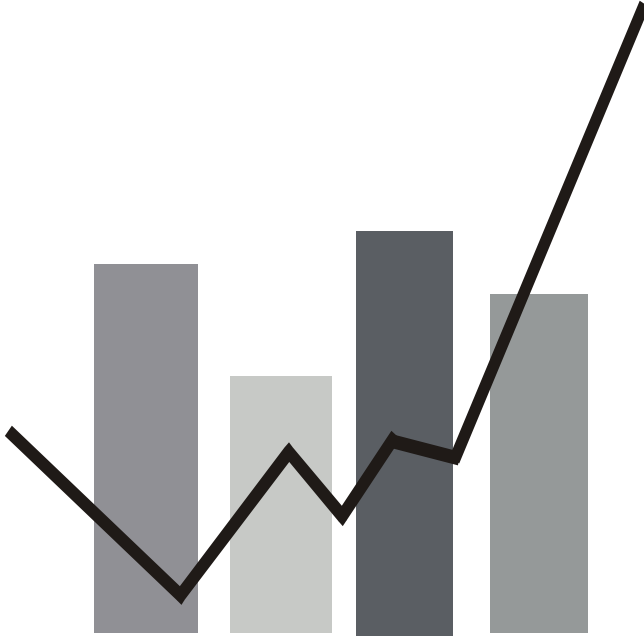




Investor's Checklist



Financial Services Commission of Ontario



06/96 - 1M
ISBN 0-7729-9564-8

Before You Invest

All investments carry a risk. It took a long time to save the hard-earned money you want to invest, so it's wise to carefully review your investment decisions. This checklist is intended for people considering investing in mortgages, real estate, tax shelters or similar schemes.

No matter how good an investment looks, there is always a possibility something can go wrong: that is what risk means. Before you invest, ask the following questions to assess the risk involved. Then decide if that level of risk is acceptable to you.

1. The Promoter:

Is the promoter providing appropriate information?

- Does the investment comply with the applicable laws and regulations of the Financial Services Commission and the Ontario Securities Commission? Contact them to find out (addresses and telephone numbers are at the end of this brochure). The commission's mandate is to protect investors. If a promoter suggests that a deal has been structured to avoid the scrutiny of regulators, ask why.
- Have the promoters advised you of their education and experience?
- Is the promoter's background relevant to the proposed investment?
- Have the promoters confirmed that they have no conflict of interest (such as obtaining fees from borrowers and investors, or having an interest in the investment)?

If the answer to any of these questions is NO, the investment risk may be increased.

2. Inducements:

Has the promoter given additional inducements for you to make the investment?

- Has the promoter implied the investment is a “sure thing”?
- Has the promoter given a personal “guarantee” for the investment?
- Has the promoter emphasized that the investment is a great “tax-shelter”?

If the answer to any of the above is YES, investment risk may be increased.

3. Information Quality:

Does the quality of information and materials relating to the investment seem adequate for the significant investment you may be considering?

- Are the financial statements audited by a professional accountant?
- If there are future projections, do you know what assumptions they’re based on? Are these assumptions realistic?
- Have you actually seen or inspected the proposed investment?

If the answer to any of these questions is NO, your investment risk may be increased.

4. Investment Features:

Are you satisfied the features of the investment provide an adequate level of safety?

- Is this your only investment, or one which represents more than 10 per cent of your savings? Diversification is an important safety feature.
- Does the promoter's family or any other related party stand to benefit from the funds being raised?

If the answer to any of these questions is YES, then investment risk may be increased.

- Has the proposed investment been available for at least two years with a successful track record?
- Can the investment be re-sold quickly if you need the money urgently?
- If a guarantee is offered, would you make the investment without the guarantee?
- Are these satisfactory assurances that the money will be used as promised?

If the answer to any of the above questions is NO, your investment risk may be increased.

5. Residential Mortgages:

Some standards for lower risk investing in mortgages:

- Is the property classed as residential, fully built, and occupied by its owner?
- Is the total amount of the mortgage less than 75 per cent of the value of the real estate?
- Is the current value of the real estate supported by an appraisal performed by an accredited residential real estate appraiser, and completed or updated within the last six months?
- Has the borrower provided evidence of ability to pay back the loan?

If the answer to any of the above question is NO, your investment risk may be increased.

6. Other Mortgages:

Mortgages placed upon real estate which is not owner-occupied residential property should be examined more carefully. If you're promised an interest rate higher than that of a financial institution, ask why the borrower is willing to pay more than a financial institution would charge.

- Has a building been fully erected on the property? (i.e. not raw land)
- Is the property **fully serviced**?
- If the mortgage funds will be used for construction.
- Does the builder have a successful track record?
- Is there protection for a cost over-run? (e.g. line of credit, bond)
- If the property will be rented, are these signed leases with tenants who are not related to the promoter or builder?
- If the property is valued as if the building were complete, is there a certified appraisal to support the value based upon current market values?

Has the promoter provided evidence that money for each state of construction will be advanced to the contractor only when an engineer or architect certifies that the previous stage has been completed?

If the answer to any of the above question is NO, investment risk may be increased.

7. Cooling Off Period

Before you sign up for an investment, are you sure you are making a sound investment decision?

- If the above checklist indicates you may be taking increased investment risks, do you understand risking your money for marginally higher return could mean you could lose everything?
- Have you taken the time to “cool-off”, to review the legal and accounting aspects of the proposed investment with your lawyer and accountant?
- Have you examined the investment on its own without being overwhelmed by any favourable tax implications promised?
- Have you given a financial institution (bank, trust company, credit union or caisse populaire) which provides investments guaranteed by deposit insurance, a chance to compare their savings investments with the investment you are considering?

If you answer NO, to any of the above, you may be demonstrating significant vulnerability to losses.

The Financial Services Commission of Ontario monitors financial institutions to help protect consumers and ensure confidence in the province's financial system.

If you have an inquiry concerning investments falling under the commission's jurisdiction - such as mortgages and securities - the commission may be able to help you.

Financial Services Commission of Ontario
Mortgage Brokers
Licensing & Enforcement Division
4th Floor
5160 Yonge Street
North York, Ontario
M2N 6L9
Telephone: (416) 226-7776

Ontario Securities Commission
18th Floor
20 Queen Street West
Toronto, Ontario
M5H 3S8
Telephone: (416) 597-0681

Or call the Ministry's Multilingual Information Centre toll free:

All areas: 1-800-263-7965
Telecommunication Device
for the Deaf (TDD): 1-800-263-7776

This checklist contains general questions which you should consider before making an investment. It is not intended to provide advice with respect to any particular investment. If legal advice or other expert assistance is required, the services of a competent professional should be sought.