

## Who we are

Mortgage Professionals Canada is the national voice of the mortgage industry, an association whose members include mortgage brokers, mortgage lenders, mortgage insurers and industry service providers. We have approximately 11,500 individual members across Canada including over 1500 members in British Columbia. Our lender membership includes Scotiabank, National Bank and TD (each is a member of the traditional “big six”) as well as First National Financial, B2B Bank/Laurentian Bank, Merix Financial, Home Trust, Equitable Bank, MCAP, ICICI Bank, and many others. Our insurer members include CMHC, Genworth Financial and Canada Guaranty.

The mortgage broker channel originates approximately 33% of all mortgages in Canada and nearly 50% of mortgages for first-time homebuyers. This represents approximately \$80 billion dollars in economic activity.

Mortgage brokers help support affordable and accessible homeownership for British Columbians by saving them on average 0.19% off their annual interest rate according to a Bank of Canada report. Our members keep the big banks honest and ensure healthy competition in the industry, which always benefits the consumer.

## Issue

FICOM released updated Mortgage Broker Conflict of Interest Guidelines, which are intended to assist the industry in meeting disclosure requirements under the Mortgage Brokers Act. We are concerned with the negative impact these changes will have on consumers in British Columbia and the competitive disadvantage these changes will place on the mortgage broker channel.

It is important to affirm that Mortgage Professionals Canada supports the goal of increased transparency and disclosure of any conflicts of interests; it is critical to our industry that consumers are well informed and are able to make informed and educated decisions. However, we are disappointed with these new guidelines. Our industry has had an ongoing dialogue with FICOM on these points and provided extensive feedback over many months. We are disappointed that our recommendations, concerns, and directional evidence on the negative implications of FICOM’s chosen requirements were ignored. The new requirements to disclose specific dollar amounts earned by brokerages, networks and franchisors is problematic for a number of reasons:

- First and foremost, the requirements do not address the stated objective of advising the consumer of potential conflicts of interest. Brokers represent multiple lenders. Each lender has a unique compensation structure meaning different lenders may pay different amounts for the same mortgage. Stating simply the compensation all related parties receive as a result of a transaction does not provide the consumer with any clear understanding of whether a particular lender’s mortgage product was chosen because it was the best fit for the client or the best compensation for the broker. Our recommendation initially to FICOM addressed this issue by providing a consumer with an outline of possible compensation structures, by lender, through a comparative chart expressing compensation as a percentage of loan value. This obvious mechanism was rejected in favour of the current requirement of a compensation amount in isolation. It is worth noting, we suggested a percentage-based comparison because specific dollar amounts would be impossible to calculate early enough in the transaction to permit a consumer to make an informed decision.
- Many brokerages have agreements with lenders that provide better rates for consumers should the brokerage reach specific volumes. This is a good thing for the consumer as it can provide them with a better rate that saves them thousands of dollars in interest payments over the course of their mortgage. Appropriately, these provisions are protected by non-disclosure agreements contained in the broker-

lender agreements. The new requirements will force brokers to break these non-disclosure agreements and we are concerned that the competition and innovation that these provide will be removed from the marketplace. This again will have a negative impact on rates for consumers.

- The new requirements put the mortgage broker channel at a direct competitive disadvantage. Consumers should benefit from increased disclosure from everyone operating in the industry. The competitive disadvantage could ultimately see higher average interest rates for all BC consumers if there is a reduction in usage of the mortgage broker channel as a result of these changes. We understand that FICOM does not regulate financial institutions, and a unified approach would be difficult, but until such time that this can be undertaken, this will be to the detriment of the mortgage broker industry and the consumer. That said, FICOM does regulate credit unions who may have conflicts themselves and the specific desire to not impose comparable regulations on credit unions seems targeted against mortgage brokers. For the sake of fairness, any financial institution that is providing a mortgage should have the same disclosure requirements to ensure an equal playing field.
- Exemptions to these requirements have been provided to certain licensed mortgage entities with no adequate explanation for how such exemptions were provided.

The negative impacts of these changes are compounded by the recent federal government announcements regarding mortgage insurance and eligibility which are already placing significant burdens on our channel. These changes must be looked at in the broader industry context, which we are concerned FICOM has failed to do.

## **Recommendations**

1. First, that the June 30, 2017 implementation of the new disclosure requirements be put on hold until a legislative review of the Act can take place. Given that there are specific components of the Act related to disclosure and conflict of interest, we believe that it is the appropriate place to be making changes of this significance. Further, the Ministry of Finance should be the place where new policy is developed as is customary in our Westminster parliamentary system.
2. Second, when amending the legislation, that consideration be given to ensure that no mortgage channel is put at a competitive disadvantage to another. Consumers ought to have the right to equal disclosure from whomever they obtain a mortgage.
3. Third, that consideration be given to recognizing that brokerages, networks and franchisors should not have to disclose any volume bonuses and other fees because this hurts compliance, regulation, competition and innovation within the industry. Instead, having brokers provide a fee, as expressed by a percentage, would have the same outcome of increased disclosure without unduly hurting competition.
4. Fourth, the introduction of alternative consumer protections that exist in other parts of the country could provide more direct and immediate consumer protections, such as mandatory errors and omission insurance.
5. Finally, that meaningful disclosure related to mortgage breakage fees and penalties be reviewed and considered in the same manner as the above disclosure requirements at the time when the Act is reviewed.