



Mortgage Broker Conflicts of Interest – Consumer Guide

Introduction

Your mortgage broker has arranged a mortgage for you and provided you with a “Conflict of Interest Disclosure Statement Form 10”. So what is it, and what should you know?

A FORM 10 IS MEANT TO GIVE YOU PLAIN INFORMATION ABOUT YOUR BROKER’S INTERESTS IN YOUR TRANSACTION.

THIS INCLUDES INFORMATION ABOUT THE COMPENSATION YOUR MORTGAGE BROKER RECEIVES; FROM WHOM; HOW MUCH IS PAID; AND WHAT INFLUENCE THIS MAY HAVE ON THE ADVICE YOU RECEIVE. The goal is to provide you with more transparency so that you can make a more informed decision on one of the largest financial transactions of your life.

UNDER B.C. LAW, THE FORM 10 DISCLOSURE IS REQUIRED TO ENSURE THAT MORTGAGE BROKERS DESCRIBE ALL POTENTIAL CONFLICTS OF INTEREST, INCLUDING COMMISSIONS, VOLUME BONUSES, AND REWARDS THEY RECEIVE FROM LENDERS. It must also contain a description of the benefits any related parties or associates of the mortgage broker may receive. Generally, compensation and benefits must be expressed as a dollar amount.

What are conflicts of interest in a mortgage transaction?

Mortgage brokers provide a valuable intermediary service to many consumers like you seeking independent advice and choice in the marketplace.

Consumers typically expect that a mortgage broker is working in their best interests, and not that of any particular mortgage lender, regardless of the source and amount of compensation received by the mortgage broker.

A CONFLICT OF INTEREST EXISTS WHEN THERE IS POTENTIAL THAT A MORTGAGE BROKER’S ADVICE TO YOU MAY BE INFLUENCED BY THE INTERESTS OF ANOTHER PARTY.

For example, when a lender pays a commission to a mortgage broker for placing business with them, especially when volume bonuses are paid, there is the possibility that the commission or bonus can influence which lender or mortgage product a broker recommends to you.

It’s important that you review your Form 10 closely, and take the opportunity to ask your mortgage broker some questions to learn how they are paid, who is paying them, and how these arrangements might generate a conflict of interest.

Questions to ask your mortgage broker:

- ▶ What services will you be providing me?
- ▶ How are you working in my best interests?
- ▶ How are you paid?
- ▶ Do you receive any additional bonuses or incentives from the lender you recommend?
- ▶ Which lenders do you typically send business to?
- ▶ Why was this lender recommended and not another?
- ▶ What other lenders did you consider before recommending this one?
- ▶ Is anyone else benefiting from the transaction?

How do mortgage brokers earn money?

There are two common ways mortgage brokers are paid for their services:

1

THE LENDER pays a commission to the mortgage broker, usually based on a percentage of the loan amount. Essentially, the commission is “embedded” in the interest rate you pay. Although the broker is typically working for you, it is the lender who pays a commission to the broker for sending them your business.

2

THE MORTGAGE BROKER negotiates a fee with you, which you pay directly to the mortgage broker from the proceeds of the loan when it is funded. This occurs most often when the mortgage is being offered by a private lender. In this case, the lender may not otherwise pay the mortgage broker.

Common Benefits That Mortgage Brokers May Receive From Arranging Mortgages:

- ✔ Commissions
- ✔ Volume bonuses for placing a certain level of business with a lender
- ✔ Loyalty or rewards points received from a lender which can be exchanged for such things as products, vacations, etc.
- ✔ Trailer fees (the broker is paid again at the renewal of your mortgage) or other compensation if you renew your mortgage with the lender at maturity
- ✔ Compensation paid to other business partners of the broker or brokerage

Where does the regulator stand on conflicts?

FAIR TREATMENT AND CONSUMER CHOICE ARE IMPORTANT PRIORITIES FOR THE REGISTRAR OF MORTGAGE BROKERS, THE REGULATOR OF MORTGAGE BROKERS IN BRITISH COLUMBIA.

We recognize that mortgage brokers provide a valuable service to a large number of consumers seeking independent mortgage advice and choice.

Competing interests are not always avoidable, and the existence of a conflict does not necessarily mean that the mortgage broker is unable to work in your best interests. However, conflicts have the potential to influence a mortgage broker's advice.

The mortgage broker industry has grown into a significant and important channel for consumers seeking to obtain a mortgage. Understanding compensation is essential to ensuring complete disclosure.

THE TRANSPARENCY PROVIDED BY THE FORM 10 DISCLOSURE REINFORCES THE TRUST AND CONFIDENCE CONSUMERS HAVE IN THE SERVICE THEIR MORTGAGE BROKER IS PROVIDING. FULL DISCLOSURE ENSURES YOU ARE ABLE TO ASK THE RIGHT QUESTIONS AND MAKE THE MOST INFORMED DECISION POSSIBLE.

How and when must the mortgage broker's compensation be described to you?

COMPENSATION DISCLOSURE MUST BE DESCRIBED TO YOU IN SIMPLE

LANGUAGE, free of technical and industry terminology, in a way that will enable you to be better informed about how the mortgage broker earns their compensation.

THE FORM 10 MUST BE PROVIDED TO YOU AT THE EARLIEST OPPORTUNE

TIME before you sign the mortgage, or any other agreement with the broker or lender that commits you to the transaction. This might be at the same time the mortgage broker presents you with a mortgage commitment from a lender outlining the mortgage terms and conditions being offered.

Who we are and how to get in touch

The Registrar of Mortgage Brokers protects the public and enhances mortgage broker industry integrity by enforcing mortgage broker suitability requirements and reducing and preventing market misconduct under the *Mortgage Brokers Act* and Regulations.

For more details, please contact us at:

TELEPHONE: 604-660-3555

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Financial Institutions Commission
Mortgage Brokers