June 6, 2018

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Financial and Consumer Services Commission (New Brunswick)
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Ontario Securities Commission
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

RE: REQUEST FOR COMMENTS RELATING TO SYNIDCATED MORTGAGE ACTIVITY IN CANADA

Thank you for the opportunity to respond to the proposed amendments to syndicated mortgage exemptions under the jurisdiction of the Canadian Securities Administrators (CSA). On behalf of our members, Mortgage Professionals Canada is pleased to respond to the public consultation.

Mortgage Professionals Canada is the national mortgage industry association representing approximately 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in the country whose interests we represent to government, regulators, media and consumers. Together, we are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel we represent originates more than 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, we are uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

Mortgage Professionals Canada supports stronger consumer protection and increased regulatory oversight for syndicated mortgage activity. We have been pleased to work closely with both the Financial Services Commission of Ontario (FSCO) and the Ontario Ministry of Finance in developing interim regulations in

Ontario before the transition from FSCO to the Ontario Security Commission (OSC) occurs.

With that said, our members do have some concerns about the significant costs that the proposed measures will have on many mortgage brokerages who are currently involved in responsible and prudent syndicated mortgage activity. The CSA acknowledges that the proposals "potentially involve significant costs" and indicate that these are "proportionate to the benefits of increased investor protection".

Without making adjustments to the proposed regulations, we are concerned that many businesses that arrange smaller syndicated mortgages will be faced with such high regulatory costs that they will no longer be able to offer these products and will be forced to exit the industry. Given the current uncertainty in the Ontario market with rising rates, new federal regulations and a persistent lack of housing supply, the removal of required syndicated mortgage finance opportunities from the market could prove damaging to the economy.

While we fully support the intention and objective of increased consumer protection, we are asking that the CSA consider the following comments that will, in our view, assist to better achieve the balance between the expected financial burden to the industry and consumer protection.

Firstly, we support the adoption of "an exemption for the distribution of syndicated mortgages on existing residential properties similar to the exemption for 'qualified syndicated mortgages' under British Columbia Securities Commission Rule 45-105". This exemption will allow many of our members to continue to arrange and fund non-complex syndicated mortgages. Without this exemption, the transfer of oversight will remove a necessary source of financing from the market. Having such an exemption would be consistent with the Ontario Ministry of Finance's qualified syndicated mortgage exemption, introduced in the new regulations coming into force on July 1, 2019. Additionally, given that the industry will already be adjusting to new regulations, it will be disruptive to brokerage operations to remove the qualified syndicated mortgage exemption when the transfer to the OSC occurs. We would propose that the Ontario Ministry of Finance's definition be used and applied across the country unless otherwise specified in provincial legislation.

Secondly, the proposed 12-month transition period is not long enough given the anticipated licensing and compliance framework. We are requesting that the transition period be extended to 24 months, or that a mortgage broker's previous syndicated mortgage oversight activity and experience be recognized by the

OSC when considering an individual's ability to perform the expected duties of a Chief Compliance Officer.

In our view, it will otherwise be impossible for principal mortgage brokers to complete the education and licensing requirements to obtain exempt market-dealer status, and then complete the required 12 months of related securities experience to act as a Chief Compliance Officer within the proposed 12-month transition period. In the absence of an appropriate timeline or approach permitting a practical transition, businesses will either be forced to incur significant staffing costs in the hiring of an existing accredited Chief Compliance Officer or simply cease arranging these types of loans.

Principal brokers have a strong understanding of the appropriate Know Your Client forms as well as procedures, product and investor suitability, and a sophisticated understanding of how syndicated mortgages work. As such, their previous experience should be recognized toward the granting of Chief Compliance Officer status, provided they attest to engaging solely in syndicated mortgages under securities regulations. This will limit the costs for our industry while ensuring the desired improvements in consumer protection.

Thirdly, there is costly red-tape with the filing of the 45-106F1 Report of Exempt Market Distributions that we would like to see addressed. We are concerned with the $500 fee per file, the need to file a report for each individual syndicated mortgage transaction, the obligation to file within 10 days, and the number of individuals required to file the report. We are concerned that the costs associated with these elements will all but eliminate the simple, less complex forms of syndication that many accredited investors have been using for decades.

The proposal could negatively impact a mortgage investor's ability to create a diversified portfolio, as smaller syndications will be removed from the investor's portfolio leaving only larger, more complex, and longer-term syndications. We believe that prudent and sophisticated investors would benefit from having any risk associated with syndicated mortgages to be as diversified as possible in order to ensure proper risk management and suitability. Our concern is that as the current regulations are proposed, this will be impossible to do.

Therefore, we recommend that in situations where the borrower assigns the obligation to the file that reports to an exempt market dealer, that the exempt market dealer is considered as the issuer and need only file one monthly report – at a cost of $500 - that contains all of the syndicated mortgage sales for that period of time. We believe this meets the intention and desire of the OSC's proposal without unintentionally removing many mortgage options from the market.

Finally, we recommend that simple husband and wife and legally recognized spousal relationship syndications be exempt from these new regulations. Since private lending still is regulated under the MBLAA, we want to ensure that a mortgage investment made by legally recognized spouses would be treated as one person on the mortgage - not syndicating two individuals on one mortgage.

Currently this is how many mortgage brokerages operate: the husband and wife named jointly on one set of investor disclosure documents. The mortgage is registered through Teranet Registration System as a single mortgage and with husband and wife as the joint mortgagees. We believe that it is not the intention of the regulations to prelude these types of syndications and we want to avoid any unintentional consequences by explicitly stating that these types of activities will be exempt from the new regulations.

In conclusion, we are supportive of the CSA's objectives of improved consumer protection and increased regulatory oversight. Please consider our comments and suggestions constructive, which we believe will better address the concern CSA has in finding the appropriate balance between consumer protection and costs to the industry.

We would be pleased to discuss our submission in more detail and answer any questions that you may have. Please contact Paul Taylor, President and CEO at ptaylor@mortgageproscan.ca or by phone at 416.644.5465.

Paul Taylor
President and CEO
Mortgage Professionals Canada