



Financial
Institutions
Commission

Mortgage Broker Fees

Consultation Paper

June 2019

I. Introduction

The Registrar of Mortgage Brokers (“the Registrar”) at the Financial Institutions Commission (FICOM) protects the public and enhances mortgage broker industry integrity by enforcing mortgage broker suitability requirements and addressing market misconduct under powers vested by the *Mortgage Brokers Act* (“the Act”) and associated *Mortgage Brokers Act Regulations* (“the Regulations”). The Registrar authorizes mortgage brokers and brokerages to conduct business in British Columbia and ensures authorized persons carry out their business as prescribed under the Act.

The Regulations list a schedule of fees for registration as a mortgage broker or submortgage broker, as well as renewal of registration.

FICOM is proposing an updated regulatory fee schedule for the mortgage broker industry in British Columbia. As part of this process, FICOM is launching a consultation to gather industry and public feedback regarding the proposed fee changes. Instructions for providing input can be found in Section VIII below.

II. Rationale

The BC Government has passed legislation establishing FICOM as an independent Crown agency to be known as the BC Financial Services Authority (BCFSA) with its own governing Board of Directors.

The BC Government has directed the BCFSA's operations to be self-funded from fees assessed to the financial services entities it regulates. Government has committed funding beginning in FY19/20 to help with the transition and to ensure regulated sectors are self-funded by FY21/22. The BC Government has retained the authority to approve any changes to the existing fee structure for the BCFSA. Therefore, FICOM's consultation to gather industry feedback regarding the proposed fee changes will be included in a submission to Treasury Board requesting approval. Cabinet approval is required to implement fee changes through regulation.

Current mortgage broker fees have not been reviewed since June 2004. This has resulted in a situation where collected fees have not kept pace with changes in the Consumer Price Index or increases in the costs of providing adequate oversight to an industry which continues to grow in size and complexity. To cover the increased cost of regulation and to ensure

regulated sectors are self-funded by FY21/22, FICOM has determined that the BCFSA will need to increase the fees charged to the mortgage broker industry in BC.

III. Regulatory Objectives

The objective of the Registrar of Mortgage Brokers is to protect the public and enhance mortgage broker industry integrity by enforcing mortgage broker suitability requirements and reducing and preventing market misconduct. The Registrar achieves those objectives by:

- maintaining a register of mortgage brokers and brokerages that are authorized to do business in BC under the *Mortgage Brokers Act* (“the Act”);
- assessing the suitability of applicants and registrants to do business in BC;
- ensuring that registrants carry out business in accordance with the Act and its associated regulations, including consumer disclosure, record keeping, and conduct requirements that protect consumers; and
- maintaining the integrity of the registration system by taking action against unregistered parties undertaking mortgage broker activities.

Under the Act, the Registrar has the following powers to pursue its objectives:

- investigating, inquiring into, and examining potential breaches of or matters arising from the Act;
- suspending or canceling a person’s registration after providing an opportunity for that person to be heard;
- ordering a person to cease a certain activity or carry out a specific action deemed necessary as a corrective measure; and
- levying penalties on persons in breach of the Act.

IV. Principles for Developing Fee Proposals

In developing fee proposals, FICOM has committed to the following principles:

1. **Simplicity**
 - i. Fees are easy to calculate
 - ii. Fees have a low administrative burden
2. **Fairness**
 - i. Regulated sectors are self-funded

- ii. Regulatory oversight costs are proportional to business activity and size
- iii. Common costs are reasonably allocated

3. Service Commitment

- i. Fees support regulatory objectives
- ii. Fees enable the hiring and retention of highly skilled staff
- iii. Fees facilitate investments in IT infrastructure

4. Transparency

- i. Cost data is provided

5. Competitiveness

- i. Fees are predictable year-over-year
- ii. Fees are comparable fees with other Canadian jurisdictions

V. Proposed Changes to Fees

The financial marketplace for mortgages has become more complex and the scope of FICOM's regulatory responsibilities has expanded significantly. Since 2004, the number of mortgage brokers registered with the Registrar in BC has more than doubled (there are currently over 4100 registered submortgage brokers and over 1200 registered mortgage brokers). BC currently has the second largest number of mortgage brokers in Canada. Real estate prices in BC have risen substantially, more than doubling in the Lower Mainland, driving growth in the mortgage broker industry. Industry is more complex and interconnected – mortgage brokers sell insurance, securities, are more engaged in private lending, and influence risk in the credit union and banking system. Risks have emerged, for example mortgage fraud, which undermine the integrity of the marketplace and increases potential harm to consumers in an environment of elevated housing prices and record levels of consumer debt.

The BCFSAs need to be appropriately funded to respond to these challenges. Investments in qualified professionals with financial sector experience will strengthen examinations, investigations, due diligence on registration applications and renewals, and support both industry and public awareness raising of the Act's requirements and regulatory expectations.

Strengthening oversight of market conduct of all mortgage brokers in BC is a priority for the BCFSa. This goal is in-line with public expectations and national and international regulatory standards.

Fee Name	FY1994 to FY2004	FY2005 to FY2020	FY20/21	FY21/22	FY22/23
New Applications (brokerage)	\$200	\$1,000	\$1,900	\$1,900	\$1,900
New Applications (lenders – for example, Mortgage Investment Corporations, monoline lenders, private lenders, syndicate lenders)	\$200	\$1,000	\$1,900	\$1,900	\$1,900
New Applications (brokers)	\$200	\$1,000	\$1,500	\$1,500	\$1,500
Renewals (brokerages)	\$200	\$500	\$1,250	\$1,250	\$1,750
Renewals (lenders)	\$200	\$500	\$1,250	\$1,250	\$1,750
Renewals (brokers)	\$200	\$500	\$1,250	\$1,250	\$1,500
Amendments/Transfers (all)	\$50	\$200	\$200	\$200	\$200

The BCFSa will review fees on a regular basis to ensure alignment with increases in regulatory costs. Prior to any change to fees, the BCFSa will conduct a consultation to ensure that stakeholders have an opportunity to present their views to the regulator.

The BCFSa will budget for a modest surplus which could be retained at year-end and reinvested in the program area the following year. The BCFSa will not adjust future year assessments or return fees in the event of a surplus.

VI. Analysis

The proposed fees reflect FICOM's principles for developing fees. In particular:

1. Simplicity

- The proposed fees are simple flat fees for obtaining, renewing and amending registrations.
- Brokerages and brokers pay a single fee at the time of application for registration and at renewal every two years.
- Administrative burden to both the regulator and regulated entities is low.

2. Fairness

- A higher first-time fee relative to the renewal fee for a new application reflects additional administrative overhead in the initial set-up of new brokerages on the mortgage broker register.
- Administrative work and due diligence to review applications is the same for all registrants for new applications and renewals. The regulatory work to supervise the conduct of market participants is the same for new entrants as it is for those renewing.
- Individual brokers will pay less fees than larger more sophisticated corporate entities such as mortgage brokerages and private lenders. This proposal reflects both the greater capacity of corporate entities to pay increased fees compared to individuals, and the costs of regulation, for example, intensified regulatory oversight over private lenders.

3. Service Commitment

- Fees generated under the proposed model will support the BCFSa in modernizing its regulatory approach, including:
 - Investments in IT infrastructure to accelerate processing of registrations and renewals;
 - Enhancements to the mortgage broker education program;
 - The development of industry and public awareness programs to increase knowledge and understanding of the regulatory scheme established by the Act;
 - Enhanced capacity to engage and collaborate with industry and other partners on regulatory guidelines, policy, and projects; and
 - Ongoing recruitment of skilled and knowledgeable staff to deliver on FICOM's regulatory accountabilities.
- The proposed fee increase will minimize the risk of regulatory services being undermined and ineffective from lack of funding.
- A well-regulated marketplace enhances industry's reputation. All mortgage brokers have a vested interest in an appropriately resourced regulator overseeing their activities.

- Together with industry, the BCFSa will be equipped to understand and respond to risks arising from fintech, new business models, real estate cycles, consumer debt levels, and money laundering and criminal activity in the real estate market.

4. Transparency

- The BCFSa will report on its activities in its annual Service Plan and publish financial statements annually with the aim of enhancing transparency.
- The Service Commitments outlined above (initiated by FICOM beginning in FY17/18) will require the BCFSa to continue to make strategic investments in people and technology, including IT infrastructure, education and outreach capacity, policy and project management capacity, and additional investigative and examinations capacity.
- The historical and projected program costs are provided below:

(all values in \$ millions)	FY16/17	FY17/18	FY18/19	FY19/20 Projection	FY20/21 Projection	FY21/22 Projection	FY22/23 Projection
Annual Costs of Registrar of Mortgage Brokers	\$1.8	\$2.0	\$2.8	\$3.0	\$3.4	\$3.4	\$3.5
- Salaries & Benefits	\$1.1	\$1.2	\$1.7	\$1.9	\$2.4	\$2.6	\$2.7
- Professional & Legal Services	\$0.4	\$0.4	\$0.5	\$0.6	\$0.5	\$0.2	\$0.2
- Other Costs	\$0.3	\$0.4	\$0.6	\$0.5	\$0.5	\$0.6	\$0.6
Costs Recovered by Current Fees	\$1.8	\$2.1	\$2.1	\$1.9	\$1.7	\$1.7	\$1.7
Net Surplus/(Loss)	\$0.0	\$0.1	(\$0.7)	(\$1.1)	(\$1.7)	(\$1.7)	(\$1.8)
Additional Costs Recovered by Proposed Fees	N/A	N/A	N/A	N/A	\$0.7	\$1.8	\$2.4
Overall Net Surplus/(Loss)	\$0.0	\$0.1	(\$0.7)	(\$1.1)	(\$1.0)	\$0.1	\$0.6
% of Costs Recovered (Current Fees)	100%	105%	75%	63%	50%	50%	49%
% of Costs Recovered (Proposed Fees)	N/A	N/A	N/A	N/A	71%	103%	117%
Full-Time Equivalent	12	13	19	19	23	24	24

- Mortgage Broker business unit saw an increase of 6 FTEs between FY 17/18 and FY 18/19, as FICOM strengthened its investigations and proactive examinations teams.
- A further increase of 5 FTEs is projected by FY 22/23, including additional investigators, examiners, project and policy support, and associated corporate services support.

5. Competitiveness

- The BCFSA’s current and proposed fees are compared to those in other Canadian jurisdictions below.
- The table also includes a comparison with fees charged by the Real Estate Council of BC which operates a similar licensing regime.
- The proposed fee structure charges a proportionately higher fee to corporate entities including brokerages and mortgage lenders.

Fees – stated in 2 year equivalency	BC current fee	BC new fee (FY23)	Alberta	Ontario	Real Estate Council of BC
Brokerage – New	\$1,000	\$1,900	\$1,500	\$1,156	\$2,000
Brokerage – Renewal	\$500	\$1,750	\$900	\$1,056	\$1,450
Individual – New	\$1,000	\$1,500	\$1,150	\$1,156	\$1,800
Individual – Renewal	\$500	\$1,500	\$950	\$1,056	\$1,450

VII. Conclusion

The mortgage broker sector has increased in size and complexity, taking on a wider economic importance with corresponding risks to consumers and the financial sector. Interest and scrutiny of actors in the wider real estate industry has increased in recent years and will only continue to increase in the years ahead as Government responds to various issues and challenges in the marketplace. Investments in the BCFSA’s people, technology and programs respond to industry’s important role in the financial services marketplace and public expectations of both industry and its regulator. To ensure that the BCFSA is adequately funded, changes to fees will need to be implemented for collection for starting in the 2020/21 fiscal year. The proposed fees will allow the new organization to invest in the necessary capabilities it requires to meet its mandate.

VIII. Questions

Some questions for consideration include:

- Do you have any concerns with the proposed fee schedule?
- Are there any other fee options you would like to be considered?
- Are there any other service commitments you would like to see from the BCFS?

IX. How to Provide Input

Written comments should be submitted by July 24, 2019, either via email to feedback@ficombc.ca or via mail to:

Mortgage Broker Fees Consultation
Financial Institutions Commission
2800-555 West Hastings St.
Vancouver, BC V6B 4N6

A copy of this consultation document can be reviewed online at www.fic.gov.bc.ca.

Responses may be made public. Please note that all submissions received are subject to the *Freedom of Information and Protection of Privacy Act*.