March 5, 2018

S & P Global
55 Water Street
New York, NY 10041

Via email

Dear Sirs/Mesdames;

Re: Anti-Fraud Standards for Mortgage Brokers

I write on behalf of the Canadian Mortgage Brokers Association, which represents mortgage brokers across Canada, to address some comments in the media which are reported to have been made by S&P Global (S&P) last week concerning mortgage brokers.

More specifically, S&P is reported to have said that, "As brokers do not bear credit risk for the residential mortgages they initiate and are generally compensated primarily on the quantity (not quality) of residential mortgage applications they process, we believe brokers have less incentive than a lender's own staff to prevent fraud."[1] We understand that S&P has as a result of this view, downgraded the risk assessment of smaller banks which utilize mortgage brokers in the origination process.

You should know that in most provinces across Canada, which include British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick, mortgage brokers are licensed professionals, who must adhere to strict regulatory requirements. Unlike mortgages processed by a bank's internal staff, mortgage brokers are directly accountable to an external, independent regulator. As you are likely aware, bank mortgage specialists, employed by banks to arrange mortgages

[1] http://news.buzzbuzzhome.com/2018/02/canadians-concerned-mortgage-fraud-credit-rating-agency-thinks.html

internally, have recently come under close scrutiny by the media and federal government for their high pressure sales tactics and lack of external accountability.

Both Regulators and mortgage lenders have taken, and continue to take, an exceptionally serious stand against mortgage fraud, and against brokers who lack due diligence in their origination process. For instance, the most recent penalty decision posted by the BC regulator, imposes maximum penalties of $50,000 against two disciplined individuals.[2]

In addition, the industry itself imposes very high expectations on its members. Mortgage brokerages, our own association and a myriad of mortgage lenders, all require mortgage brokers to conduct business ethically and honestly. The act of getting cut off from a lender seriously impairs a broker's ability to arrange mortgages, and can end a mortgage broker's career. Many lenders have a zero tolerance policy for fraud, and will for instance, cut off a broker from further business, for seemingly innocuous conduct, such as changing a date on application without the borrower's express consent. Furthermore, all regulatory action against licensed mortgage brokers is reported on a database called REDX, which often results in the broker getting "black balled" by lenders for even light regulatory infractions.

The industry therefore polices itself very strictly. While mortgage brokers do not obviously bear any risks for borrower defaults under the mortgages they originate, they do bear risks for engaging in mortgage fraud or a lack of due diligence in which they fall below the standards of lenders or regulators. These risks are tangible and can often have an immediate impact on the broker's career. Mortgage brokers therefore have significant incentives to prevent fraud, which may be even greater than those of lenders.

[2] http://www.fic.gov.bc.ca/pdf/enforcement/mb/mba20180117.pdf

I urge you to better understand the practices of mortgage brokers and the lenders which use them for mortgage originations, in your evaluation process of mortgage lender risks.

Please know that I am available to discuss these issues with S&P staff further.

Yours truly,

Samantha Gale, Executive Director, CMBA