September 3, 2019

Huston Loke
Executive Vice President, Market Conduct
Financial Services Regulatory Authority
5160 Yonge Street, 16th Floor
Toronto, ON M2N 6L9

Dear Mr. Loke:

Re: FSRA ID 2019-002 – Proposed Supervision Approach for High-risk Syndicated Mortgage Investments – Request for Public Comment

Mortgage Professionals Canada (MPC) is the national mortgage industry association representing over 11,000 individuals and 1,000 companies, including mortgage brokerages, lenders, mortgage insurers, and industry service providers. 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 per cent of all mortgages in Canada and 55 per cent of mortgages for first-time homebuyers, representing approximately $80 billion in annual economic activity; Ontario's activity represents greater than 60 per cent of total amounts. With our diverse and strong membership, MPC is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

We appreciate having already been provided the opportunity to discuss these issues as part of FSRA's Mortgage Brokering Sector industry advisory group. Our meeting June 11 – a precursor to what has become Proposed Supervision 2019-002 – was instructive, and demonstrated FSRA's leadership in working to preserve and improve consumer and industry trust.

We welcome the opportunity to comment on here. You asked:

1. *Does the supervision approach address the appropriate risks relating to syndicated mortgages for retail investors?*

MPC believes the approaches you propose are long overdue. High-risk transactions aren't for everybody, especially at the retail level. Your proposed measures do address the "red flags" FSRA has rightly highlighted, namely LTVs greater than 100 per cent, subordination clauses, and conflicts of interest.

You also asked:

2. Does the new supplemental disclosure form [3.2.1] clearly highlight that these are risky investments? Is the language in the new disclosure form easy to understand?

The header of the FSRA's proposed For 3.2.1 currently looks like this:

FSRA
Financial Services Regulatory Authority of Ontario

Ontario

Form 3.2.1 – Supplemental Disclosure for Retail Investor in a High-risk Syndicated Mortgage

Mortgage Brokerages, Lenders and Administrators Act, 2006

Consumer Warning:
A syndicated mortgage could be a risky investment.

Earlier drafts of the form contained a disclaimer which was clearer, with larger and bolder text, without inverse colours, and with stark, unmistakable language which clearly stated that a syndicated mortgage which meets one of the three criteria above *is* a risky investment. There was also discussion about including a phrase similar to, "Don't invest in this unless you can afford to lose all the money you pay into this investment opportunity." As we did in June, we support such language. There is also a case to be made to require prospective investors to initial beside such a warning.

What is currently being proposed does not carry the same gravitas the previously discussed warnings did. That said, if the proposed language is kept, it is suggested it is laid out more clearly. It should be bolded, and with a font size at least 30% larger than the body text of the document, like this:

CONSUMER WARNING:
This syndicated mortgage could be a risky investment.

It may even be worth considering a place for the investor to initial next to the warning. This adjustment would not add any regulatory burden, but it could add protection for FSRA, the retail investor, fellow investors, and the broker from the onset. The acknowledgement could be seen by some as sufficient, but being as bold as possible in the first lines of the document does have added merit. The rest of Form 3.2.1 does highlight the risks of syndicated mortgage investing.

In addition to this, several members have highlighted that Forms 3.1 and 3.2 can and should be merged into one form, in order to reduce their paperwork burden. We ask that FSRA considers this.

We look forward to continuing to collaborate with you and your staff as you work to modernize financial services regulation in Ontario, together ensuring that consumers will continue to be educated and protected, and appreciate your sizable efforts to date.

Sincerely,

Paul Taylor
President and CEO
Mortgage Professionals Canada