



MORTGAGE BORROWER COMPENSATION DISCLOSURE DOCUMENT

Summary: Mortgage brokerages are required to disclose to borrowers, in writing, how they will be compensated for their work. This disclosure must also include disclosure of any other monies or benefits it may receive from the lender (including factors that influence payment) and any additional fees payable by the borrower. The Real Estate Council of Alberta has introduced a new form to assist mortgage brokerages in explaining to borrowers how they will be compensated. [See: *Real Estate Act*, s.18(2), *Real Estate Act Rules*, s.41(c), s.65]

An industry member must clearly disclose, at the earliest opportunity, how they will be paid for their services [*Real Estate Act Rules*, s.41(c)].

When the client is responsible for paying the industry member for their services, not only will the client be entitled to know how the industry member will be paid, they are also entitled to know exactly what the costs (fees and disbursements) will be or how they will be calculated.

If an industry member will be providing services to a client, but will be paid by a third party, it is also incumbent upon the industry member to disclose how they will be paid. If the client asks questions seeking greater detail, it is the industry member's duty to accurately and honestly answer all questions related to their compensation.

Required disclosures specific to Alberta mortgage brokerages and compensation are found in section 65(c) of the *Real Estate Act Rules* and include that brokerages are to disclose to borrowers in writing:

- (iv) how it will be compensated for the transaction;
- (v) the nature of any other monies or benefits it will receive from the lender and the factors that influence payment of any additional monies or benefits; and
- (vi) any additional fees payable by the borrower.

Mortgage brokerages are also required to provide other written disclosures to borrowers. For more information on those disclosures, please see the *Mortgage Borrower Relationship Disclosure Document*.

The Real Estate Council of Alberta recognizes and understands that at the outset of a relationship between a mortgage broker and a borrower it may be impossible to disclose the exact compensation the broker will receive (either through the borrower, the lender or both); however, in those situations, the broker should disclose at the beginning of the relationship how they will be compensated and once the lender has been chosen, the disclosures required in section 65 of the *Real Estate Act Rules* must be provided. One tool available to industry members to assist in making these disclosures is the Mortgage Brokerage Compensation Disclosure Document.

Mortgage Borrower Compensation Disclosure Document

RECA recently developed a *Mortgage Borrower Compensation Disclosure Document* to assist borrowers in understanding how mortgage brokerages – specifically, the brokerage with which they are working – will be compensated. When a mortgage broker correctly uses the RECA-developed form, it meets the disclosure requirements of section 65(c)[(iv), (v) and (vi)].

The form provides information to borrowers not only about monetary compensation the mortgage brokerage may receive from the lender, but also about other non-monetary benefits. There is also comprehensive information about any fees that may be charged to the borrower and what will happen with respect to fees paid by the borrower if the mortgage brokerage is not successful at getting the borrower's mortgage application approved by a lender.

Finally, the form contains a disclosure with respect to any compensation the mortgage brokerage may be paying to others as a result of the mortgage referral (if applicable). For example, if the borrower's real estate representative forwarded the borrower's contact information to the mortgage brokerage, with permission from the borrower, the mortgage brokerage may have an arrangement with the real estate representative through which the real estate industry member receives compensation as a result of the eventual mortgage deal.

Though the form itself is not mandatory for Alberta mortgage brokerage industry members, the disclosures contained within it are required. The form is available through the RECA website at www.reca.ca under the "Forms" section of the website.