

# MORTGAGE BROKERAGE – FILE REVIEW AND COMMISSION PAYMENT PROCESSES BY FRANCHISOR

**Purpose:** This bulletin explains the requirements when National Mortgage Broker Networks provide file review and commission payment services to Alberta mortgage brokerages.

**This bulletin applies to all mortgage brokerages, brokers, and associates.**

Some national mortgage broker networks provide file review and commission processing services to their network. The services involve having centralized staff trained to review files to ensure compliance with regulatory rules and corporate policy. Following a satisfactory file review, the centralized service processes commission payment for individual associates.

The benefits to the brokerages receiving these services include access to trained expert staff to do the reviews and cost savings through process efficiencies.

## INFORMATION BULLETINS

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### File review process

Generally, file reviews are an administrative function that does not require a licence. Brokerages can assign the file review process to a third party. As a broker responsible for the operations of the brokerage, you need to be aware that:

- file reviews require an administrative and regulatory perspective
  - unlicensed individuals may conduct administrative reviews and do not require contact with the borrower or lender
  - licensed individuals conduct regulatory reviews where there are issues that fall under dealing in mortgages
- you remain accountable for the actions of the person(s) carrying out the assigned duties
- the assignment needs to be in writing, signed, and understood by both you and the person(s) you are assigning the work
- you must oversee the process to ensure compliance
- you must continue to have personal involvement in a compliance audit process

## Centralized commission payment processes

There are many different mortgage brokerages business models and compensation arrangements. A mortgage brokerage may request, in writing, that the lender pay the brokerage's commission payments to a third party. The third party may calculate brokerage and associate commission splits, and arrange for distribution of the commissions from a brokerage account. Mortgage associates cannot accept payments for dealing in mortgages from any person other than the brokerage with which they are registered. This means the associate must receive payment from a brokerage bank account.

## Examples

A brokerage enters into a written agreement with a lender for the lender to pay the brokerage's franchisor. The brokerage has a written service agreement with the franchisor to provide administrative services to the brokerage. These services include:

- receipt of brokerage commissions for deals in mortgages
- calculation of franchisor, brokerage, and associates fees
- depositing of brokerage and associate fees into a brokerage account
- payment of fees to brokerage and associates of the brokerage
- record keeping for those transactions

There are many variations of this model and services. This model is for explanation purposes.

A brokerage enters into a written agreement with a life insurance company to earn referral fees for the sale of policies to borrowers dealing through the brokerage. The life insurance company deposits the referral fees into a brokerage account and directly pays the brokerage associates from that account.

If there are other ancillary products where associates receive fees, you must set up a similar model.

## Related information

### Legislation

- *Real Estate Act* Rules – section 70(1)(c)

### Information Bulletins

- Assistants – Mortgage Brokerage
- Prohibitions – Mortgage Brokers and Associates