

**Please Note:**

**As of April 2005 the Financial Institutions Commission of BC address changed to:  
1200 – 13450 – 102 Avenue Surrey BC V3T 5X3**

November 2004

## OPEN LETTER FROM THE REGISTRAR OF MORTGAGE BROKERS

Over the last several months, considerable media coverage has been given to the increasing problem of marijuana grow operations (“grow-ops”) in the Province and, in particular, the Lower Mainland. Grow-ops have become a major source of concern for many communities resulting in public meetings aimed at trying to address problems associated with their presence. Grow-ops negatively affect neighbourhoods directly through the criminal element that they bring, and the potential for increased violence within the area, and indirectly as a result of their impact on property values.

Properties purchased for the purpose of using them as grow-ops often have inflated property values as a result of purchasers’ willingness to pay a premium over and above the market value of the property to ensure a quick possession date. This in turn inflates the value of surrounding properties, and creates false market values. Subsequently when the grow-op is abandoned and it becomes known that the property was used as a grow-op it is often difficult to re-sell the property to a legitimate purchaser, resulting in a significant reduction in both the value of the property and the value of property in the neighbourhood.

Increasingly, we are finding that many of the houses being identified as grow-ops are high-end properties in up-scale neighbourhoods. Mortgages are being obtained on these properties using fictitious purchasers and/or false employment and down payment information in the application. The proliferation of these types of transactions is becoming an increasing concern, particularly in view of the potential for adverse effects on the mortgage broker industry and those financial institutions that are funding the mortgages on these properties.

During our investigation of these cases, we are finding that in a significant number of transactions, little, if any, due diligence has been carried out to ensure the accuracy of the information provided on the mortgage application. Lenders appear to be relying heavily on the information being sent to them by either the applicant, or the mortgage broker referring the mortgage.

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**Financial  
Institutions  
Commission**

- Superintendent of Financial Institutions
- Superintendent of Pensions
- Superintendent of Real Estate
- Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation of British Columbia

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Mortgage brokers on the other hand are saying that it is not their responsibility to verify the information being passed on to them by applicants, and that it is up to the lenders to ensure the information is accurate. This office takes the position that mortgage brokers **do have** a responsibility to ensure the accuracy of information provided by the applicant. If mortgage brokers do not verify any of the information they are forwarding to lenders, then mortgage brokers should advise the lenders **in writing** that none of the information has been verified.

While no one is suggesting that mortgage brokers need to conduct in-depth investigations of every transaction that they process, some due diligence must be undertaken to ensure that the information being passed on to lenders has been verified. Applications containing errors or omissions need additional verification and under no circumstances should brokers be referring to a lender, applications that have been shown by another lender as containing false or inaccurate information.

It is essential that mortgage brokers are aware of the issues and concerns regarding the financing of properties, which may ultimately be used for illegal purposes. The early detection and reporting of fraudulent mortgage applications is an essential tool in combating the problem of grow-ops and the further funding of illegal activities. I would encourage all of you to take the time to ensure that you are aware of the red flags associated with the detection of fraudulent mortgage transactions and money laundering, and to report suspected cases to the authorities as soon as possible.

In view of the concerns this issue is causing not only in the mortgage broker industry but amongst lenders and the general public, I believe it is necessary to confirm this office's position on the subject of misleading information. As such, I am withdrawing Bulletin MB 96-001 and issuing a new Bulletin MB 04-005 that I am confident will provide clearer direction to mortgage brokers regarding their responsibilities in the verification process.

Please do not hesitate to call Jay Mitchell, Deputy Registrar of Mortgage Brokers at 604 660-0108 or Ken Fraser, Executive Director of Investigations at 604 660-2508 should you have any questions or concerns regarding this matter.