

June 25, 2018

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Financial and Consumer Services Commission (New Brunswick)
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Ontario Securities Commission
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Dear Sirs and Mesdames:

Comments on proposed changes relating to syndicated mortgages

We refer to the CSA Notice and Request for Comment dated March 9, 2018, and are pleased to provide the following comments.

We have been involved in the commercial mortgage market in British Columbia for over 20 years. We rely on the OM Exemption to raise the funds that we loan to borrowers involved in commercial or residential projects, which loans are secured by one or more commercial mortgages and related collateral security. Our comments below do not apply to the single family residential mortgage market.

Appraisals

1. We support the proposal to require an appraisal where a syndicated mortgage is distributed under the OM Exemption. We do not see any need for an exception to that requirement in those circumstances.

Mortgage Broker Requirements

2. We rely on the OM Exemption to issue investment contracts to our clients. We note the discussion of investment contracts in CSA Notice 46-308.

As is the case with a number of lenders in this space in British Columbia, our staff are licensed under the BC Mortgage Brokers Act and are regulated by the BC Financial Institutions Commission.

One or more of our mortgage brokers have always signed the certificate attached to each OM. We believe, for our business, that this is highly appropriate and the OM provides a standard structured discipline that our investors appreciate.

We can't think of any circumstances where requiring additional disclosure by and a certificate from a mortgage broker would not be appropriate in connection with the use of the OM Exemption.

3. We believe that it is appropriate for a broker to certify that commercially reasonable efforts have been made to ensure there are no misrepresentations. Our group has always followed/adhered to this principle.

For matters that are outside of our expertise, we rely on other professionals, including Environmental and Geotechnical Engineers, Appraisers, Quantity Surveyors or Cost Consultants, Insurance Consultants, etc. We consider the hiring of these professionals as appropriate and best practice, and disclose the use of such professionals in our Offering Memorandums.

Exclusion of Syndicated Mortgages from the Private Issuer Exemption

4. We can rely on the family, friends and business associates exemption contained in section 2.5 of 45-106 where only our directors, officers or certain of their family members, or close personal friends or business associates are involved in funding a loan transaction.

We can't think of any circumstances where the distribution of syndicated mortgages under the Private Issuer Exemption would be appropriate and reporting to the securities regulatory authorities would not be necessary. We believe it is important to ensure that the integrity of this industry is maintained with the appropriate level of reporting requirements and regulatory oversight.

Alternative Prospectus Exemptions

5. We are a sophisticated team engaged in syndicated commercial mortgages with a select group of investors, many of whom have invested with us for decades. We believe that an alternative prospectus exemption should be provided for an issuer of investment contracts involving syndicated commercial mortgages where the issuer acts as the lead investor and has its own capital at risk alongside the investors.
6. As noted above, we can't comment on this question as it is not within the scope of our business.
7. Same comment as 6. above, however, it could be argued that such an investment may actually be riskier as they tend to be initiated by less sophisticated originators.

Additional comments

Syndicated mortgage loans play a very important role in British Columbia for both the borrowers and the investors that join us in these opportunities. The individual loans provide a platform for the investors to invest smaller amounts in a greater number of opportunities, thus spreading their risk. There is also a constant requirement for this type of financing to be available to borrowers given the high cost of properties in the Province.

The Canadian securities regulators have recently published a number of news releases about the need to reduce the regulatory burden for certain issuers. The proposed amendments will add to the regulatory burden in our industry but the commentary does not demonstrate the need for the additional regulatory burden.

For example, the termination of BCI32-517 and the requirement for industry participants to become registered as a dealer or to involve a third party dealer would involve an added cost that simply could not be absorbed without entering into higher yielding transactions which, in turn, means taking on additional risk which would have the opposite effect on investors than what we believe is intended. By way of example, the lowest fee that we have heard of being requested by a third party dealer has been 4% and we have heard they can range as high as 10%. If we are structuring a syndicated first mortgage at a rate of say, 6%, clearly the payment of dealer compensation in this range does not make any economic sense.


We have spoken to several of our clients to get a sense of their thoughts on having a dealer advise them on an investment in a mortgage. Every client has confirmed that they would, without hesitation, prefer to discuss the investment with a mortgage broker who knows the product inside and out rather than with a dealer who may not know anything other than the basics of the investment and to whom the mortgage is just another product. The clients also indicated that they are very comfortable with our approach as we act as the lead investor and thus are taking on the same risks as the investors.

In addition, 45-901F, the current form of OM for syndicated mortgages in British Columbia was originally introduced in August 2000 and the lending industry in British Columbia has complied with that form since that date. The required disclosure is easy to understand (our clients actually read it) and protective of the investors' interests. We believe that 45-901F works well and is much less likely to confuse or mislead investors than the proposed required disclosure contained in both 45-106F2 and 45-106F18. Very simply, we see no need to change the required form of OM. If you feel that additional disclosure is required, we would hope that an industry specific required form could be prepared.

Generally speaking, we do not feel there is a need for further regulation of our industry but would certainly support a greater level of enforcement. As licensed mortgage brokers, we are required to renew our licenses every two years, a process that requires completing several hours of continuing education, an application requiring disclosure as to any law suits, court actions etc. and accompanied with a Criminal Background Check.

We would welcome the opportunity to meet with staff members at the British Columbia Securities Commission to discuss any questions that arise from these comments.

Yours very truly,
REALTECH CAPITAL GROUP INC.



David R Bouskill
Vice President



James C. McPherson
President