

STRATEGIES BY GAVIN ADAMSON

Mortgage broker an advisor's good friend

Referral relationships can lead to more business and better service, while keeping clients out of the big banks

IN EVA SACHS' PARTICULAR business niche, she finds that working with a mortgage broker is advantageous.

An advisor with **Money Concepts Canada** in Mississauga, Ont., Sachs focuses on the financial planning issues in divorce cases — and mortgage refinancing is almost always part of the equation.

Settlements are often complicated legal documents that need to be put into action by an advisor, and the ex-couple's home is usually a major part of the plan, says Sachs, who is a certified divorce financial analyst: "The next step is usually a refinancing to help out from a cash-flow perspective, even if it is temporary. That can have a huge impact. Having a mortgage broker onside is very important."

While the banks still have 70% of the mortgage market, mortgage brokers are taking a greater share every year and many advisors are developing reciprocal relationships with their new financial services cousins.

The benefits are many. First, because mortgage brokers are not allowed to hold both an insurance licence and a mortgage sales licence, advisors may win insurance contracts from mortgage brokers' clients.

Next, mortgage brokers can offer clients access to a wider range of debt-consolidation products

and home-equity strategies than those with which advisors may be familiar.

Finally, advisors say, by providing access to these products and strategies, they are keeping their clients out of the big banks, which are always happy to poach clients' assets when they get the chance.

"I don't see any difference in using mortgage brokers than dealing with any other professionals," says Paul Shirer, who runs **Perfect Timing Financial Corp.** in Toronto. "For anyone who is self-employed and independent on the financial planning side, building centres of influence and word-of-mouth are the only ways to build your professional practice.

"The demographics of the planner's book will make a difference," he adds. "I have a young profile on my book of business; many of my clients are in the market for mortgages on their first homes. Over the past six years, that's been huge. And that's precipitated the housing boom."

Mortgage brokers are obviously in touch with clients at the time of a home purchase, when clients are considering life insurance. While banks are quick to take a sale on their built-in mortgage insurance products, mortgage brokers will be more willing to pass clients to insurance advisors who can offer a greater range of insurance products.

Jon Sowerby, a mortgage broker at **MonsterMortgage.com** in Toronto, says that a bank's mortgage insurance is a form of life insurance: "But it's expensive and not as comprehensive as term insurance."

Mortgage brokers also offer home-equity strategies. Sowerby, who worked in sales at AIM Funds Management Inc. for a decade before he turned to the mortgage brokerage business, says home equity can be a powerful financial planning tool. He points to recent Industry Canada data that indicate the median net worth of Canadians with a mortgage is more than \$110,000. And those who have paid off their mortgages have access to more than \$250,000.

Partly for that reason, a company called **Smith Manoeuvre Financial Corp.** (www.SMFC.com) has established a referral service among mortgage brokers and about 400 financial advisors who have shown interest in leveraging strategies.

"I like to say we're getting the left and the right sides of the balance sheet working together," says Karl Straky, president of the **Mortgage Training Group**, who co-founded SMFC with Frasier Smith, formerly a financial planner in Vancouver.

The so-called "Smith manoeuvre" has been around for decades, but Smith wrote a book about the subject a few years ago that is

still generating buzz. He has added a few wrinkles and has marketed the concept over the past few years, including a recent speaking tour throughout southern Ontario.

The strategy involves leveraging with debt combined with a tax strategy. Here's how it works:

A client takes out a new mortgage on his or her home. With the newly found credit, the client invests in an investment vehicle. The client writes off the interest on the debt because the Canada Revenue Agency allows residents to write off the interest on that debt if it is invested with a reasonable likelihood of profit. The client then pays the mortgage payments with the yield from the investment.

A mortgage broker could wrap the client's high-interest loans, such as credit card debt, into this new mortgage and open up a "readvanceable" line of credit. This relatively new product allows the client to access the equity in the home as he or she pays off the mortgage.

The risk, of course, is that if the government closes the tax loophole, the strategy doesn't pay. And if interest rates rise while the housing or stock markets fall, the client's invested product may lose value quickly, leaving the client with no extra income with which to pay off the mortgage.

"I don't want to get a 60-year-old into a 75% home-equity line of

credit for an investment in a Latin America fund," says Sowerby. "It's not for everyone."

There is one caveat for advisors considering an affiliation with a mortgage broker. The mortgage brokerage business is underregulated; some mortgage brokers may have only enough training to complete the mortgage applications, while others may have the accredited mortgage professional designation conferred by the Canadian Association of Accredited Mortgage Professionals (www.caamp.org).

And in some provinces, virtually anybody can hang up a shingle as a mortgage broker. In Alberta, the real estate and mortgage industry has been self-regulating for a decade, with the **Real Estate Council of Alberta** conducting disciplinary hearings. In Quebec, the industry is governed by real estate brokerage legislation that was updated in 2004. But Manitoba, New Brunswick, Prince Edward Island and the Territories have no specific governing legislation, while Ontario and Saskatchewan are in the process of amending their laws.

"You need to find a mortgage broker who has the same values as you. It's about putting the client first," says Jackie Debacker, an advisor with **FundEx Investments Inc.** in Toronto. "Once you find that match, you hang on to it for dear life because it's very precious." **IE**