April 25, 2014

Melanie Achtemichuk
Director, Policy Initiatives
FICOM
2800-555 West Hastings St.
Vancouver, BC
V6B 4N6

Dear Ms. Achetemichuk,

Re: FICOM Draft Residential Mortgage Underwriting Guideline

We have reviewed the draft Residential Mortgage Underwriting Guideline which FICOM has published for public comment on March 24, 2014. Thank you for providing us with an opportunity to review the proposed guidelines and make comments.

We agree that sound credit management and underwriting guidelines are necessary to ensure the continued stability and sound performance of British Columbia's credit unions. The need for underwriting guidelines might be of particular importance in British Columbia given that credit union deposits are fully guaranteed by the provincial government through the Credit Union Deposit Insurance Corporation of British Columbia. However, it is also true that credit unions differ from most banks in that they are member focused, non-profit institutions which serve local communities. We support the proposed underwriting guidelines, with the following suggestions to ensure their competiveness and their capacity to fulfill a unique community orientated role.

Income Qualification

Requiring an employment letter plus 2 to 3 years of tax assessments may be unnecessary and unduly limit a credit union's ability to maintain its competitive edge in the residential mortgage market. We are of the view that for salaried employees an employment letter plus 2 pay slips and the most current Notice of Assessment (NOAs) from CRA would suffice to verify employment provided that certain fraud avoidance measures are taken. In addition, for self employed or commissioned borrowers we would suggest 2 years of tax returns and 2 years of NOAs would suffice to verify income.

Fraud Avoidance Measures

We are aware that many credit unions perform certain fraud avoidance measures which can also serve as additional income qualification measures. These measures could include:

- Independently researching the business address, telephone number and supervisor of the employer on the internet;
- Contacting employers by telephone to verify employment;
- Reviewing employment letters to ensure there are no red flags, such as improper dates and names;
- Reviewing borrower credit bureau's to see whether:
    - employment history matches the application information;
    - there is a suspicious lack of credit history indicating the possible use of an alias;
    - reported indebtedness matches that declared by the borrower in the application; and
    - the borrower claims substantial income but has only dealt with alternative lenders.

We recommend that the underwriting guidelines include a requirement that credit unions adopt fraud avoidance measures, such as those indicated above, in order to provide additional verification of the borrower's income and to reduce instances of qualification fraud.

Affordability - Amortization

We agree that in order to ensure that borrowers can afford to repay mortgage loans, they should qualify using an amortization of 30 years or less. However, once a borrower has qualified using an amortization of 30 years or less, he or she should be able to elect to amortize the mortgage loan up to 35 years if such an option is offered by a credit union. This would ensure that credit unions maintain their competitive edge while still ensuring that mortgage borrowers have the capacity to repay the loan.

Other Residential Mortgage Products: HELOC

Many credit unions tier the LTV ratio of HELOCs from 65% to 80% depending on the particular product. Requiring credit unions to limit all HELOC products to an LTV ratio of 65% would greatly reduce their competiveness and put them in a B-20 environment similar to that of banks. This might have a significant impact on the profitability of credit unions and require borrowers to rely more on private lenders at higher interest rates. In order to maintain their competitive advantage over banks, credit unions should be able to offer HELOC products of up to an 80% LTV.

Credit Union Reporting

There may be concern that changes in reporting requirements could create challenges for some credit unions with inflexible data collection and reporting systems. FICOM may want to consider the cost impact of significant reporting changes to credit unions in establishing data reporting requirements.

Other than the matters noted above, the proposed underwriting guidelines appear to provide sound residential mortgage underwriting guidance to credit unions in British Columbia. Please know that I and any of the directors of MBABC and MBIBC are available to discuss any of the above noted issues further if you wish.

Regards,

Samantha Gale
Chief Executive Officer, MBABC and MBIBC

Rob Regan-Pollock
President of MBIBC