RESIDENTIAL MORTGAGE UNDERWRITING GUIDELINE ANNEX

Summary of Consultation Comments and Financial Institutions Commission (FICOM) Responses

INDUSTRY COMMENT	FICOM RESPONSE
Clarification on the definition of financial lifecycle.	FICOM interprets financial lifecycle as the series of financial stages that an individual passes through during his or her lifetime. These stages are often influenced by new life circumstances, such as graduation, working years, marriage, children, and retirement. These life circumstances can influence an individual's economic condition, needs and future financial goals. By determining the stage of an individual's financial lifecycle, a lender can more accurately assess whether a residential mortgage fits the needs and future financial conditions of the borrower, and the probability of repayment.
New standards for enhanced data collection and reporting will take time and financial resources.	In order to properly assess its risks, a credit union must have reliable data that is collected and aggregated in a timely manner. The residential mortgage loan data collected and aggregated through a credit union's management information system is essential in risk-managing the residential loan portfolio and decision-making by the credit union's board and senior management. FICOM recognizes that credit unions will require transition time for data collection and reporting standards; FICOM expects implementation of data collection and reporting standards to occur on a go-forward basis.
Income verification standards are excessive and too prescriptive.	In some cases, a credit union member may be unable to present historical tax assessments or notice of assessments. However, income verification remains a significant factor in determining the soundness of a residential loan. An unreliable or false income declaration can have a severe impact on the borrower's ability to service the loan and creates risk for the credit union.

	At a minimum, income verification is documented with an employment letter and through an independent means, from a source that is difficult to falsify; it does not contradict other information provided during the underwriting process and matches the income amount used by the credit union in its assessment of the borrower's debt service capacity.
Credit unions can determine their own debt service ratio calculation in order to assess the affordability of a loan.	FICOM's survey of debt service ratio calculation methodologies in BC credit unions revealed a lack of consistency in GDS/TDS ratio calculations across the credit union system. FICOM believes that a consistent standard for the calculation of GDS/TDS ratios will improve risk management at both the institutional and system level. A consistent standard will allow credit unions to more accurately compare their own mortgage underwriting practices to those of comparable credit unions. This type of horizontal analysis can aid a credit union in determining appropriate risk exposures, reasonable limits and sound underwriting practices. A consistent standard will also allow credit unions to undertake a vertical analysis of their practices over time to accurately determine, monitor and analyze any changes to their risk exposures. Given the size and value of the BC residential real estate market to credit unions, affordability and household debt are macro-economic factors that affect the credit union sector system-wide. At the system level, a consistent standard for GDS/TDS ratio calculations enables FICOM to aggregate data to effectively monitor for risk concentrations system-wide. FICOM will address the implementation of a common debt service calculation methodology in the future.
Restricting home equity lines of credit (HELOCs) to less than 65 per cent LTV will	Credit unions can offer HELOCs at greater than 65 per cent LTV provided that the HELOC is noted as an exception to policy that is approved, monitored and reported

make credit unions uncompetitive.	in accordance with the credit union's residential mortgage underwriting policy. The revolving nature of HELOCs can lead to greater persistence of outstanding balances and greater risk of loss to the lender. It can also be easier for borrowers to conceal potential financial distress by drawing on their lines of credit to make timely residential mortgage payments, thereby making it challenging for lenders to sufficiently examine credit risk exposure. HELOCs at greater than 65 per cent LTV require additional underwriting scrutiny and robust risk management; documenting higher-risk HELOCs as exceptions to policy ensures that management and the board are aware of the credit union's exposures.
It is unclear when credit unions are expected to record and aggregate residential mortgage loan data.	Credit unions are expected to record residential loan data at origination and at any other time updated data becomes available. For example, if new data becomes available during the renewal of a mortgage loan, it should be inputted into the information management system in order to keep data as current as possible.