



July 19, 2016
File No.: 71000-00
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To: BC Authorized Credit Unions

Re: Residential Mortgage Underwriting Practices at BC Credit Unions

On July 7, 2016, the Office of the Superintendent of Financial Institutions issued a [letter](#) to all federally regulated financial institutions (FRFIs) stating that it will tighten its supervisory expectations for mortgage underwriting, citing increased risks posed by rapid price increases and a low interest rate environment. Credit unions should be aware that there is potential for these risks to transfer from FRFIs to other lenders.

The Financial Institutions Commission (FICOM) closely monitors BC real estate, including current housing and credit conditions. In particular, it is monitoring risks faced by BC credit unions, including record-high house prices and concentrations of higher loan-to-value (LTV) loans in select regions. Underwriting practices should take into account current conditions, including high levels of household debt and low income growth, to ensure borrowers do not become overextended and pose undue risk to the credit union.

BC credit unions are concentrated in residential real estate lending. Given the heightened risks in the BC housing market, and the potential for transfer of risk from FRFIs to BC credit unions, FICOM will place greater attention on the residential mortgage portfolios and associated risk management practices of BC credit unions; in particular, heightened attention will be paid to income verification and third party mortgage originations. Note that third party mortgage originations should be subject to the same level of oversight and risk management as those originated by the credit union.

FICOM's [Residential Mortgage Underwriting Guideline](#) sets out supervisory expectations for sound residential mortgage underwriting and risk management practices at BC credit unions. Credit unions should ensure that their mortgage underwriting policies and procedures meet supervisory expectations. Given current market conditions, credit unions should be carefully examining their capital management plans to ensure prudent policies and practices are in place and followed.

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- Superintendent of Financial Institutions
 - Superintendent of Pensions
 - Superintendent of Real Estate
 - Registrar of Mortgage Brokers

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FICOM will be requesting additional information on mortgage portfolios and risk management practices of some credit unions.

If you have any questions or concerns, please contact Frank Chong, Deputy Superintendent, at Frank.Chong@ficombc.ca or Gilbert Yuen, Credit Risk Specialist, at Gilbert.Yuen@ficombc.ca.

Yours truly,



Frank Chong
Deputy Superintendent, Regulation

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