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**BULLETIN NUMBER:** CU-2007-01

**TITLE:** NON INCOME QUALIFYING MORTGAGES AND CRIMINAL ACTIVITY

**LEGISLATION:** PROCEEDS OF CRIME (MONEY LAUNDERING) AND TERRORIST FINANCING ACT

**DATE:** FEBRUARY 15, 2007

**DISTRIBUTION:** ALL CHIEF EXECUTIVE OFFICERS, GENERAL MANAGERS AND BOARD CHAIRPERSONS OF CREDIT UNIONS

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Recent amendments to some BC Credit Unions' Investment and Lending Policies indicate increased involvement in mortgage lending to borrowers who are not required to meet income qualification requirements. Our review of mortgage loan approvals where debt service requirements have been either relaxed or waived, have raised concerns that certain unconfirmed sources of repayment may be from criminal activities and meet the definition of a "suspicious transaction".

Guidelines published by the Financial Transactions and Reports Analysis Center of Canada ("FINTRAC") define suspicious transactions as "financial transactions that there are reasonable grounds to suspect are related to the commission of a money laundering offence. Since June 12, 2002, suspicious transactions also include financial transactions that there are reasonable grounds to suspect are related to the commission of a terrorist activity financing offence." The Canadian Proceeds of Crime (Money Laundering) and Terrorist Financing Act, applicable to Credit Unions, requires vigilance when dealing with suspicious transactions. It is important to note that the \$10,000 threshold, which triggers the reporting requirement for cash transactions and electronic transfers, does not apply to suspicious transactions. With the obligation to report any amount that is considered as suspicious, there is a responsibility to consider the source of funds used to meet loan obligations. Full details of requirements for reporting suspicious and other transactions are contained on FINTRAC's website at [www.fintrac.gc.ca](http://www.fintrac.gc.ca).

There are significant financial penalties for failing to meet the suspicious

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There are significant financial penalties for failing to meet the suspicious transaction reporting obligations. Also, the impact on the reputation risk to Credit Unions must be considered if operating procedures are found to be deficient when dealing with suspicious transactions. Therefore, in the course of carrying out their responsibilities, BC Credit Union managers and boards of directors must ensure that the requirements for dealing with suspicious transactions are incorporated into procedures for granting and monitoring non income qualifying mortgages. Any perceived failure in procedures to mitigate these risks will be incorporated into the regulatory risk profile of Credit Unions.

At the Financial Institutions Commission, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act*, Regulations and other pertinent legislation. While the comments in a particular part of an information bulletin may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, an interpretation or position contained in an information bulletin generally applies as of the date on which it was published, unless otherwise specified.