REGULATORY GUIDELINE

Residential Mortgage Underwriting

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I. INTRODUCTION

This regulatory guideline is a Regulatory Guidance Document as contemplated by the Standards of Sound Business Practice (the Standards). It supplements and expands upon section 2.1, *Financial Management* and section 3.4, *Credit Management* of the Standards and must be adhered to by Saskatchewan credit unions.

II. REGULATORY LIMITS

This regulatory guideline prescribes regulatory limits with respect to non-conforming residential mortgages and non-amortizing home equity lines of credit (HELOCs). Prescribed limits include:

- a maximum loan-to-value (LTV) ratio of less than or equal to 65 percent for non-conforming residential mortgages
- a maximum LTV ratio of less than or equal to 65 percent for the non-amortizing HELOC component of a residential mortgage

These limits will not be applied on a retroactive basis to existing in-force residential mortgages (i.e., transactions that have already been entered into or where funds have been committed). Beginning in August, 2015, the limits will apply only to new mortgages, and to mortgages with terms that have been significantly altered.

Additional information regarding these regulatory limits is contained in Principle 4 of this guideline.

III. PURPOSE AND SCOPE OF THE GUIDELINE

The purpose of this guideline is to communicate key principles and the expectations of Credit Union Deposit Guarantee Corporation (the Corporation) with respect to residential mortgage underwriting. It complements relevant provisions of *The Credit Union Act, 1998*, the Standards, the Corporation's risk-based supervisory framework and the Government of Canada's mortgage insurance guarantee framework.[1] The Corporation expects credit unions to apply residential mortgage underwriting policies and practices that ensure the safety and soundness of individual residential mortgage loans and adequate risk management of their loan portfolios.

For the purposes of this guideline, a residential mortgage includes any loan to an individual that is secured by residential property (i.e., property that will be occupied by the borrower or rented). Equity loans, HELOCs and other such products that use residential property as security are also covered by this guideline.

This guideline articulates five fundamental principles for sound residential mortgage underwriting. The first principle relates to credit union governance and the development of overarching business objectives, strategy and oversight mechanisms in respect of residential mortgage underwriting and/or the acquisition of residential mortgage loan assets.

[1] For the purpose of this guideline, "insured mortgages" refers to mortgages insured against loss caused by default on the part of a borrower under a loan secured by real property.

The next three principles focus on the residential mortgage credit decision and the underwriting process, specifically the assessment of:

- the borrower's identity, background and demonstrated willingness to service their debt obligations on a timely basis (Principle 2)
- the borrower's capacity to service their debt obligations on a timely basis (Principle 3)
- the underlying property value/collateral and management process (Principle 4)

These three principles should be evaluated by lenders using a holistic, risk-based approach unless otherwise specified in this guideline. The borrower's demonstrated willingness and capacity to service their debt obligation on a timely basis should generally be the primary basis of a lender's credit decision. Undue reliance on collateral can pose challenges, as the process to obtain title to the underlying property security is generally difficult for the borrower and costly to the lender.

The fifth principle addresses the need for mortgage underwriting and purchasing to be supported by effective credit and counterparty risk management, including, where appropriate, mortgage insurance.

The final section of the guideline summarizes disclosure and supervisory requirements.

IV. PRINCIPLES

PRINCIPLE 1

Credit unions that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets are expected to have a comprehensive Residential Mortgage Underwriting Policy and Practice (RMUP).[2]

Residential Mortgage Underwriting Policy and Practice (RMUP)

The board-approved risk appetite statement establishes limits regarding the level of risk that the credit union is willing to accept with respect to residential mortgages, and forms the basis for the RMUP. The RMUP should further align with the credit union's enterprise-wide strategy and be linked to the enterprise risk management framework.[3]

The RMUP should reflect the size, nature, scope and complexity of a credit union's residential mortgage business and consider factors and metrics such as:

- significant elements of the credit union's business strategy and approach to residential mortgage underwriting and the acquisition of residential loan assets
- at the portfolio level, risk management practices and processes with respect to residential mortgage loans and loan assets (e.g., lending, acquisition, product, concentration limits)
- at the individual residential mortgage loan level, acceptable underwriting and acquisition standards, criteria and limits for all residential mortgage products (e.g., credit scores, loan-to-value ratios, debt service coverage, amortization period)
- the frequency of loan and collateral reviews
- limits on exceptions to provisions contained in the RMUP for residential mortgages underwritten and/or acquired
- identification and escalation processes for residential mortgage underwriting and/or acquisition exceptions, if any, including a process for approval and exception reporting

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[2] The RMUP can be one consolidated document or a set of mortgage policy and practice documents.
[3] The principles and expectations of credit unions with respect to the risk appetite statement and enterprise risk management framework are outlined in the Corporation's regulatory guideline 2014-01, *Corporate Governance.*

- the roles and responsibilities for those positions charged with overseeing and implementing the RMUP

Board and Senior Management Oversight

Senior management is responsible for the development and implementation of the RMUP. However, the board of the credit union has a critical role in providing high-level guidance to, and oversight of, senior management with respect to matters relating to mortgage underwriting and portfolio management.

The board of the credit union is expected to review and discuss the RMUP or any changes to the RMUP on a periodic basis. The board should understand the decisions, plans and policies undertaken by senior management with respect to residential mortgage underwriting and/or the acquisition of residential mortgage loan assets, and their potential impact on the credit union. It should probe, question and seek assurance from senior management that these are consistent with the board's own decisions and board-approved business and risk strategy for the credit union, and that the corresponding internal controls are sound and being implemented in an effective manner.

The board should receive timely, independent and objective reporting on the related risks of the residential mortgage business, including the procedures and controls in place to manage the risks, and the overall effectiveness of risk management processes.

The board should be aware of, and be satisfied with, the manner in which material exceptions to policies and controls related to residential mortgages are identified, approved and monitored, the nature of reporting to the board, and the consequences and processes when exceptions are identified.

Internal Controls, Monitoring and Reporting

Effective control, monitoring and reporting systems and procedures should be developed and maintained by credit unions to ensure ongoing operational compliance with the RMUP. Credit unions are expected to identify, measure, monitor and report the risks in all residential mortgage lending and acquisition operations on an ongoing basis. The credit union's residential mortgage risk appetite and tolerance profile should be understood at all relevant levels of the organization.

Credit unions are expected to have adequate processes[4] in place with respect to residential mortgages to independently and objectively:

- identify, assess and analyze the key risks
- monitor risk exposures against the board-approved risk appetite of the credit union
- ensure that risks are appropriately controlled and mitigated, and provide assurances to the board and senior management
- ensure that risk management policies, processes and limits are being adhered to, and provide assurances to the board and senior management
- provide reporting on exceptions to the RMUP, as well as the identification of patterns, trends or systemic issues within the residential mortgage portfolio that may impair loan quality or risk mitigation factors
- report on the effectiveness of models

[4] Typically, these processes are carried out by the credit union's risk management oversight function.

PRINCIPLE 2

Credit unions are expected to preform reasonable due diligence to record and assess the borrower's identity, background and demonstrated willingness to service his/her debt obligations on a timely basis.

Background and Credit History of Borrower

Credit unions are required to make a reasonable enquiry into the background, credit history and borrowing behaviour of a prospective residential mortgage loan borrower as a means to establish an assessment of the borrower's reliability to repay a mortgage loan.

For example, a credit score offered by the major credit bureaus is an indicator often used to support credit granting. However, a credit score should not be solely relied upon to assess borrower qualifications, as such an indicator measures past behaviour and does not immediately incorporate changes in a borrower's financial condition or demonstrated willingness to service their debt obligations in a timely manner.

Credit unions are also required to obtain appropriate borrower consent when determining the background and credit history of a borrower, and to comply with relevant provincial and federal legislation governing the use and privacy of personal information (e.g., *Personal Information Protection and Electronic Documents Act*).

Loan Documentation

Maintaining sound loan documentation is an important administrative function for lenders. It provides a clear record of the factors behind the credit granting decision, supports lenders' risk management functions, and permits independent audit by credit unions and review by the Corporation. As well, maintaining sound documentation is necessary for lenders to demonstrate compliance with mortgage insurance requirements and ensure insurance coverage remains intact.

Consequently, credit unions are expected to maintain complete documentation of the information that led to mortgage approval. This generally includes:

- a description of the purpose of the loan (e.g., purchase, refinancing, renovation, debt consolidation)
- employment status and verification of income (see Principle 3)
- debt service ratio calculations, including verification documentation for key inputs (e.g., heating, taxes and other debt obligations)
- LTV ratio, property valuation and appraisal documentation (see Principle 4)
- credit bureau reports and any other credit enquiries
- documentation verifying the source of the down payment
- purchase and sale agreements and other collateral supporting documents
- an explanation of any mitigating criteria or other elements (e.g., "soft" information) for higher credit risk factors
- the rationale for the decision (including exceptions)
- a record from the mortgage insurer validating approval to insure the mortgage where there may be an exception to the mortgage insurer's underwriting policies

The above documentation should be obtained at the origination of the mortgage and for any subsequent refinancing of the mortgage. Credit unions should update the borrower analysis periodically using a risk-based approach in order to effectively evaluate their credit risk. In particular, credit unions should review some of the aforementioned factors if the borrower's condition or property risk changes materially.

As a general principle, an independent third-party conducting a credit assessment of a credit union mortgage loan should be in a position to replicate all aspects of the underwriting criteria, based on the credit union's sound documentation, to arrive at the derived credit decision.

Anti-Money Laundering/Anti-Terrorist Financing

If the credit union is aware, or there are reasonable grounds to suspect that the residential mortgage loan transaction is being used for illicit purposes, the credit union must decline to make the loan and file a suspicious transaction report to the Financial Transactions Reports Analysis Centre of Canada (FINTRAC) with respect to the attempted transaction.

Credit unions are expected to ensure that residential mortgage loans are subject to the requirements of the *Proceeds of Crime (Money Laundering) and Terrorists Financing Act* (PCMLTFA) and the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations* (PCMLTFR) with respect to detecting and deterring the possible use of a property purchase or mortgage to launder the proceeds of crime or assist in terrorist financing.

In particular, credit unions are required to comply with the customer identification and record keeping requirements of the PCMLTFR, and ensure that they obtain sufficient information about the borrower to determine whether the customer is a higher risk customer, as defined under the PCMLTFA and PCMLTFR.

PRINCIPLE 3

One of the most fundamental components of prudent underwriting is an accurate assessment of the borrower's ability to repay their debt obligation. Credit unions are expected to adequately assess the borrower's capacity to service his/her debt obligations on a timely basis.

Income Verification

A borrower's income is a key factor in the assessment of their capacity to repay the mortgage loan, and verification of income helps detect and deter fraud. Credit unions should make reasonable enquiries and take reasonable steps to verify a borrower's underlying income. This includes substantiation of:

- employment status
- income history of the borrower

For borrowers who are self-employed or have irregular sources of income, credit unions are expected to take reasonable steps to obtain income verification (e.g., notice of assessment and other business documentation such as lease/tenant agreements for landlords).

Guarantors and Co-Signers of Mortgage

Where a credit union obtains a guarantee or co-signer supporting the mortgage, it is expected to also undertake sufficient credit due diligence on the guarantor/co-signer. For example, this should include verification of the guarantor's/co-signer's income as well as a credit bureau report and a net worth statement. The guarantor/co-signer should fully understand his/her legal obligations.

Debt Service Coverage

A fundamental component of prudent underwriting is an accurate assessment of the adequacy of a borrower's income, taking into account the relevant mortgage payments and all debt commitments. As part of this assessment, credit unions are expected to establish debt serviceability metrics (including the method to calculate the metrics), set prudent measures for debt serviceability (articulated in the RMUP) and calculate the borrower's debt serviceability ratios for the purpose of assessing affordability.

Two ratios that are commonly used are the Gross Debt Service (GDS) ratio and the Total Debt Service (TDS) ratio. For example, for insured mortgages, the Canadian Mortgage Housing Corporation (CMHC) defines GDS and TDS ratios and sets maximum limits. Private mortgage insurers also define similar debt serviceability metrics and limits for mortgage insurance products. The Corporation expects that GDS and TDS scores will reflect a reasonable distribution across the portfolio and align with the board-approved risk appetite.

Credit unions should have clear policies with respect to the contributing factors for the calculation of GDS and TDS ratios, including, but not limited to:

- principal and interest
- other sources of income
- heating costs
- property taxes
- guarantor or cosigner income
- monthly payment amounts for other credit facilities

GDS and TDS ratios should be calculated conservatively (i.e., appropriately stressed for varied financial and economic conditions and/or higher interests rates). As an example, for insured mortgages, the Government of Canada's mortgage insurance guarantee framework requires that for all variable interest rate mortgages, regardless of the term, and fixed rate mortgages with a term less than the standard five-year term, lenders use the greater of the contractual rate or the five-year benchmark rate published by the Bank of Canada.[5]

For uninsured residential mortgages, credit unions should contemplate current and future conditions as they consider qualifying rates and make appropriate judgments, and not assume that the internal five-year rate is sufficiently prudent for their analysis. At a minimum, the qualifying rate for all variable interest rate mortgages, regardless of the term, and fixed mortgages with a term less than five years should be the greater of the contractual mortgage rate and the five-year benchmark rate published by the Bank of Canada.

Additional Assessment Criteria

In addition to income and debt service coverage, credit unions are expected to take into consideration other factors that would not ordinarily be captured by debt serviceability metrics such as the borrower's assets (e.g., savings), other living expenses and recurring payment obligations (e.g., condominium fees).

To the extent possible, income assessments should also reflect the stability of the borrower's income, including possible negative outcomes (e.g., variability in the salary/wages of the borrower). Conversely, temporarily high incomes (e.g., overtime wages, irregular commissions and bonuses) should be suitably normalized or discounted.

[5] The benchmark rate (5-year conventional mortgage rate) is published weekly by the Bank of Canada.

Amortization

The mortgage amortization period for the loan is an important factor in the credit lending decision as it affects the required debt service for the borrower, the speed of repayment of the mortgage and the growth of borrower equity in the underlying property.

Credit unions are expected to have a stated maximum amortization period for all residential mortgages that are underwritten. The Corporation expects that the average amortization period for mortgages underwritten to be less than the credit union's stated maximum, as articulated in its RMUP.

PRINCIPLE 4

Credit unions are expected to have sound collateral management and appraisal processes for the underlying mortgage properties.

General

Generally, mortgage loans are granted on the basis of the borrower's demonstrated willingness and capacity to service his/her debt obligations because the process to obtain title to the underlying property security can be time consuming and costly. However, to the extent that the lender would ever need to realize on the underlying property serving as security, it is important to have sound collateral practices and procedures.

Property Appraisals

A significant amount of leverage is often involved in residential mortgage lending and there is general reliance on collateral to provide adequate recourse for repayment of the debt if the borrower defaults. As such, a proper and thorough assessment of the underlying property is essential to the residential mortgage business and key to adequately mitigating risks. Credit unions are expected to have clear and transparent valuation policies and procedures in this regard.

On-Site Inspection

In general, credit unions should conduct an on-site inspection of the underlying property, to be performed by either a qualified employee or an appraiser, depending on the nature of the property or transaction. Beyond the valuation of the property, an on-site property inspection is beneficial in the process of validating the occupancy, condition, and ultimately, the existence of the property.

Third-Party Appraisal

Credit unions that use third-party appraisers should ensure that appraisals are prepared with the appropriate professional appraisal skill and diligence, and that appraisers are designated, licensed or certified, and meet qualification standards. As well, these appraisers should be independent from the mortgage acquisition, loan processing and loan decision process.

Automated Valuation Tools

Where credit unions use automated valuation tools, processes should be established to monitor their ongoing effectiveness in representing the market value of the property.

Controls should also be in place to ensure that the tools are being used appropriately by lenders.

In general, credit unions should not rely on any single method for property valuation. Credit unions should undertake a more comprehensive and prudent approach to collateral valuation for higher-risk transactions, such as residential mortgage loans with a relatively high LTV ratio.

Realistic, substantiated and supportable valuations are required to reflect the current price level and the property's function as collateral over the term of the mortgage. Consistent with Principle 2, comprehensive documentation in this regard should be maintained.

Credit unions are expected to ensure that the claim on collateral is legally enforceable and can be realized in a reasonable period of time or, absent that verification, ensure that the title insurance from a third party is in place. Credit unions should ensure that collateral is protected against unexpected loss through provisions within the residential mortgage loan that include, for example, fire insurance.

When extending loans to borrowers, credit unions are expected to impose contractual terms and conditions that secure their full protection under the laws applicable in the relevant jurisdiction, and seek to preserve an appropriate variety of recourses (including, where applicable, actions on personal covenant) should the borrower default. In addition, credit unions are expected to have the necessary action plans in place to determine the best course of action upon borrower default. Such action plans should cover:

- the likely recourses/options available to the credit union upon default in all relevant jurisdictions
- the identification of the parties against whom these recourses may be exercised
- a strategy for exercising these options in a manner that is prudentially sound

Loan-to-Value (LTV) Ratio

General

The commonly used LTV ratio is an evaluation of the amount of collateral value that can be used to support the loan. Past experience suggests it is highly correlated with credit risk. Those residential mortgage loans with higher LTV ratios generally perform worse than those with a lower LTV ratio.

Credit unions are expected to adhere to an appropriate maximum LTV ratio for various types of mortgage transactions. The maximum LTV ratio may be determined by law or based on current and expected market conditions, as well as other risk factors that may impact borrowers' ability to service their debt and/or lenders' ability and cost to realize on their security.

Traditional Residential Mortgages[6]

A loan made by a credit union on residential property cannot exceed 80 percent of real property value unless the exceptions set out in the Standards apply. The Corporation expects LTV ratios for conforming residential mortgages to reflect a reasonable distribution across the portfolio.

[6] This includes home equity loans with a specified amortization period (i.e., second mortgages).

The LTV ratio should be recalculated upon any refinancing, and whenever deemed prudent, given changes to a borrower's risk profile or delinquency status, using an appropriate valuation/appraisal methodology.

Credit unions should not structure a mortgage or combination of a mortgage and other lending products (secured by the same property) in any form that facilitates circumvention of the maximum LTV ratio limit set out in its RMUP. Further, the LTV ratio should not be relied upon solely as an alternative to assessing the borrower's demonstrated willingness and capacity for repayment of the loan (see Principles 2 and 3).

Down Payment

With respect to the borrower's down payment for both insured and uninsured mortgages, credit unions are expected to make reasonable efforts to determine if it is sourced from the borrower's own resources or savings. Where part or all of the down payment is gifted to a borrower, it should be accompanied by documentation from those providing the gift confirming no recourse. Incentive and rebate payments (i.e., cash back) should not be considered part of the down payment.

Property Value Used for the LTV Ratio

Credit unions should assess, and adjust as appropriate, the value of the property for the purpose of calculating the LTV by considering appropriate risk factors that make the underlying property more vulnerable to a significant house price correction or that may significantly affect the marketability of the property. These factors would include, but are not limited to, the location of the property, the type of property, its current market price and the expected use of the property for which the loan is granted.

Non-Conforming Residential Mortgages

The definition of non-conforming residential mortgages may vary across credit unions. In general, the definition can include non-income qualifying loans, loans to those with low credit scores or high debt serviceability ratios, mortgages where attributes of the property cause the loan to carry credit risk (e.g., illiquid properties) or any loan that has clear deficiencies relative to a conforming residential mortgage.

The Corporation expects credit unions to impose a maximum LTV ratio less than or equal to 65 percent for non-conforming residential mortgages. Like traditional residential mortgages, the LTV ratio for non-conforming residential mortgages should reflect a reasonable distribution across the portfolio.

Home Equity Lines of Credit (HELOCs)

A HELOC[7] is a form of non-amortizing (revolving) credit that is secured by a residential property. Unlike a traditional residential mortgage, most HELOCs are not constructed to fit a predetermined amortization, although regular, minimum periodic payments are generally required by most lenders.

HELOC products provide an alternative source of funds for customers. However, it is important to recognize that, over time, these products can also significantly add to consumer debt loads. While some borrowers may elect to repay their outstanding HELOC balances over a shorter period of time relative to the average amortization of a typical

[7] For the purpose of the guideline, all reverse mortgages, or any non-amortizing (revolving) credit products secured by residential property, are considered to be HELOCs.

traditional mortgage, the revolving nature of HELOCs can also lead to greater persistence of outstanding balances and greater risk of loss to lenders. As well, it can be easier for borrowers to conceal potential financial distress by drawing on their lines of credit to make timely mortgage payments and, consequently, present a challenge for lenders to adequately assess credit risk exposure.

Given the unique features of HELOCs relative to traditional residential mortgages, credit unions should ensure appropriate mitigation of the associated risks of HELOCs, including the ability to expect full repayment over time, and the need for increased monitoring of the borrowers' credit quality.

The Corporation expects credit unions to limit the non-amortizing HELOC component of a residential mortgage to a maximum authorized LTV ratio of less than or equal to 65 percent.[8] The Corporation expects that the average LTV ratio for all HELOCs to be less than the credit union's stated maximums, as articulated in its RMUP, and reflect a reasonable distribution of LTV ratios across the portfolio.

PRINCIPLE 5

Credit unions are expected to have effective credit and counterparty risk management practices and procedures that support residential mortgage underwriting and loan asset portfolio management, including, as appropriate, mortgage insurance.

Mortgage Insurance

Mortgage default insurance (mortgage insurance) is often used as a risk mitigation strategy. However, mortgage insurance cannot be a substitute for sound underwriting practices. It should not be considered a substitute for conducting adequate due diligence on the borrower, or for using other risk proxies such as the minimum down payment.

Credit unions may obtain mortgage insurance from CMHC and private mortgage insurance providers. The Corporation agrees that the use of either is appropriate, provided that a credit union conduct due diligence on the mortgage insurer commensurate with its level of exposure to that insurer. When performing such an assessment, a credit union should give consideration to, among other things, the mortgage insurer's:

- claims payment record
- expected future claims obligations
- balance sheet strength
- funding sources, including the quality of its governance practices and procedures
- reinsurance arrangements and the direct and indirect impact that may have on the credit union's own arrangement with the insurer

The evaluation of each credit union's mortgage insurance counterparty should be updated throughout the life of the insurance contract. In cases where there may be material exposures incurred but not reported losses, credit union management should ensure that the evaluation continues beyond the expiration date of the contract to ensure that the credit union assesses potential insurance recoverable from expected future claims.

For insured mortgages, credit unions should meet any underwriting or valuation requirements set out by the mortgage insurer to ensure the validity of insurance on those loans.

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[8] Additional mortgage information (beyond the LTV ratio limit of 65 percent for HELOCs) can be extended to a borrower. However, the loan portion over the 65 percent LTV ratio threshold is to be amortized.

Purchase of Mortgage Assets Originated by a Third Party

Credit unions that acquire residential mortgage loans that have been originated by a third party are expected to ensure that the underwriting standards of that third party (i.e., due diligence on the borrower, debt service coverage, collateral management, LTV ratios, etc.) are consistent with the credit union's RMUP and compliant with this guideline. Credit unions should not rely solely on the attestation of the third party.

Model Validation and Stress Testing

Credit unions often use models to contribute to residential mortgage underwriting and/or acquisition decisions (e.g., valuation or bankruptcy models) or to make lending decisions by way of auto-adjudication.

Credit unions are expected to have an independent validation process at both inception and on a regular basis for these models. This includes the regular review and recalibration of risk parameters with respect to their mortgage portfolio. The models used should reflect the nature of the portfolio and be adapted, as appropriate, if there is substantial variation or risk within the portfolio. This could include the development of new models to capture specific risk segments.

Additionally, credit unions should have a stress-testing regime that considers unlikely, but plausible, scenarios and their potential impact on the residential mortgage portfolio.[9] The results of such stress testing should be considered in the ongoing validation of any models and reflected in credit unions' Internal Capital Adequacy Assessment Process (ICAAP).[10]

Higher-Risk Asset Portfolios

Heightened Prudence

Credit unions have the flexibility to underwrite and/or acquire a wide range of residential mortgages with varying risk profiles. However, for residential mortgage loan portfolios that constitute greater credit risk (e.g., non-conforming mortgages), the Corporation expects credit unions to exercise heightened prudence through:

- greater board and senior management oversight of the asset portfolio
- increased reporting and monitoring of the residential mortgage loan asset portfolio by management
- stronger internal controls (e.g., additional substantiation of credit qualification information, enhanced credit approval processes, greater scrutiny by the risk management oversight function, etc.)
- stronger default management and collection capabilities
- increased capital levels backstopping the impact of portfolio risk

Adequacy of Regulatory Capital

The Corporation expects credit unions to maintain adequate regulatory capital levels to properly reflect the risks being undertaken through the underwriting and/or acquisition of residential mortgages. Credit unions should reflect mortgage loan assets with inherently greater risk through risk-sensitive increases in capital identified through their ICAAP.

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[9] The principles and expectations of credit unions with respect to stress testing are outlined in the Corporation's regulatory guideline 2011-01, *Stress Testing.*

[10] The principles and expectations of credit unions with respect to ICAAP are outlined in the Corporation's regulatory guideline 2010-03, *Internal Capital Adequacy Assessment Process.*

V. GUIDELINE ADMINISTRATION

DISCLOSURE REQUIREMENTS

Increased disclosure leads to greater transparency, clarity and public confidence in credit union residential mortgage underwriting practices. Credit unions are expected to publicly disclose sufficient information for members and other key stakeholders to be able to conduct an adequate evaluation of the soundness and condition of credit unions' residential mortgage operations.

Credit unions should determine the appropriate methods of disclosure based on Generally Accepted Accounting Principles (GAAP), industry practices[11] and ease of accessibility by stakeholders. Financial disclosures should be attached to or included in the notes of financial statements.[12]

SUPERVISION OF CREDIT UNIONS

Information for Supervisory Purposes

Enhanced transparency and sound documentation will allow the Corporation to better understand the credit union's financial position and economic impacts and risks associated with a credit union's residential mortgage underwriting and acquisition practices. A credit union is expected to promptly notify the Corporation if it becomes aware of any mortgage underwriting issues that could materially impact its financial position.

Non-Compliance with the Guideline

The Corporation supervises credit unions in order to determine whether they are in sound financial condition and to promptly advise the credit union board and senior management in the event the institution is not in sound financial condition or is not complying with supervisory requirements. Where a credit union fails to adequately account and control for the risks of underwriting or acquisition of residential mortgages, the Corporation can take, or require the credit union to take, corrective measures. The Corporation's actions can include heightened supervisory activity, including preventive or remedial intervention actions.

[11] See OSFI guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* for prescribed residential mortgage disclosure requirements of federally regulated financial institutions.
[12] The principles and expectations of credit unions with respect to transparency and disclosure are outlined in the Corporation's regulatory guideline 2011-02, *Transparency and Disclosure*.