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CREDIT RISK MANAGEMENT

IMPORTANT

The policies in this chapter are sufficient for most situations that may arise. The policies may not cover every situation and must be customized to meet each credit union's unique requirements.

The shaded text that appears in this chapter is customizable by your credit union. Numbers or values within customizable text that you can change will be further differentiated in bold typeface. When customizing this chapter, use your software's Find/Replace function to insert your credit union's name wherever "the credit union" (or a variation of this phrase) appears.

Text in boxes, such as this one, is background information, and can be deleted when you customize this file.

Note: Material from By-law No. 5 has been incorporated into this policy. Customizing this material within the framework of Bylaw No. 5 will allow each credit union to deliver credit products to its particular market, while maintaining risk within acceptable parameters. It is strongly suggested that credit union managers and boards consult the workbooks prepared by DICO for additional guidance that will help them comply with the By-Law.

Overall Philosophy

The credit union believes that it is in keeping with the overall credit union philosophy to have appropriate and prudent policies, procedures and controls to manage the credit risk of the institution.

All loans must be considered in the context of providing creditworthy members with appropriate borrowing opportunities at a reasonable rate of return for the credit union.

The credit union may return a portion of the income derived from lending to eligible borrowing members in the form of a loan interest rebate.

Credit Granting Philosophy

- a. The credit union's philosophy on granting credit is based on the understanding that it is a fundamental responsibility to consider, first and foremost, the safety of the institution and its depositors while being mindful that providing members with effective borrowing services is one of the credit union's core businesses.
- b. Funds will be loaned, where applicable, to members for worthwhile purposes. Loans typically will be based upon the demonstrated willingness and ability of the borrower to repay on schedule and upon various forms of security taken either directly or indirectly to safeguard the loan.

- c. Management will establish operational lending criteria for all categories of loans, in accordance with the credit granting philosophy. The credit union's Board of Directors will review the credit union's Credit Risk Management Policy to ensure the policy remains current. Management will make lending decisions pursuant to these criteria, including the setting of interest rates and maturities of loans within Structural Risk Management Policy limits established by the Board of Directors.
- d. The loan portfolio will be, as much as possible, diversified with the objective of spreading risk.
- e. Borrowers will be provided with a full explanation of the terms and conditions of loans before loan agreements are signed. To the degree legally possible, written loan agreements and security documents obtained will contain clear statements of the terms and conditions of the underlying loan facility, including fees and penalties.
- f. Where applicable, the credit union will establish appropriate and prudent limits or prohibitions on credit exposures, including:
 - a limit on loans in aggregate to any one borrower or group of associated borrowers (i.e. connected parties as defined in Section 73 of the Ont.Reg.76/95.)
 - restricted party loans
 - the level of unsecured/under secured loans within the portfolio.

Policy Objectives

- a. To implement a policy that addresses:
 - authorized types
 - limits or prohibitions on credit exposures,
 - assessment criteria and security requirements for each type of loan
 - an effective credit assessment and monitoring system
 - defined and prudent levels of decision-making authority for approving credit exposures
 - management of deteriorating, delinquent and impaired loans.
- b. To provide a disciplined framework so that lending activities meet the credit union's lending philosophy and are managed prudently as required under section 190 of the Act.
- c. To ensure that proper measurements and monitoring of the performance of the loan portfolio are maintained.

- d. To be consistent with other established policies and objectives and to meet the requirements of the FSCO's Guideline for Prudent Investment and Lending Policies and Procedures.
- e. To ensure appropriate annual credit management planning and risk measurement is undertaken.
- f. To ensure that the credit union's lending portfolio complies with all regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

The **Treasurer/Manager** shall be responsible for the implementation of, updating and ongoing adherence to this policy.

General Policy Guideline

- a. The management of the credit union shall invest the portion of the assets set aside for lending only in lending products which are lawful and which comply with the credit union's lending licence(s) and all regulatory requirements, including those prescribed in sections 193 to 197 of the Act and sections 61 to 65 of Regulation 76/95. As a primary focus, the credit union will seek lending opportunities that provide competitive yields, are well secured, have identifiable sources of income for repayment and allow loan losses to be contained within established tolerances.
- b. Adequate measuring, monitoring and reporting on risk position and exposure will be maintained and compliance responsibilities will be met. Summary measurements on specifically required aspects of the credit portfolio will be prepared for review at each board meeting.
- c. Credit Risk Management Policy will govern both new and renewal loans.
- d. Exceptions or changes to this policy can be approved only by the Board of Directors. This authority cannot be delegated, although a committee appointed by the board may recommend such approvals.
- e. In no circumstance should mortgage advances exceed 75 per cent, without provision of additional third party insurance, such as that provided by CMHC.
- f. Debt Service Ratio - the maximum loan approval for debt servicing, as a percentage of the applicant's annual available income from all sources, is as follows:

<u>Gross Debt*</u>	<u>Total Debt</u>
32%	40%

* Includes shelter costs, mortgage/rent/condominium fees (50% of condominium fees) plus applicable property tax costs.

There are some circumstances where required debt service ratios should not

outright prohibit loan approvals. Such exceptions would include but are not limited to:

- bridge financing on purchase/sale of real property where an interim agreement is in place and an assignment of proceeds is obtained and witnessed by a solicitor with a substantial deposit for a maximum period of 90 days;
 - loan to value ratio is 50 per cent or below;
 - an assignment of a deposit is obtained in an amount and for a term sufficient to offset the deficiency in the ratio;
 - the borrower qualifies at normal amortization but chooses to accelerate;
 - the loan is fully secured by cash or liquid assets;
 - there is little other debt so the gross ratio may be exceeded as long as the total ratio is not exceeded;
 - the borrower is a recent university graduate in a profession where current income is low initially but has a high potential to increase substantially over the long term;
 - short-term loans against verified and assigned funds (e.g., grants, maturing securities).
- g. Loans will be priced for risk on the basis that, overall expected returns on loans will provide an appropriate reward for assessed risk and a realistic net contribution to earnings. Terms and conditions of loans will reflect current conditions and prices will be generally competitive but may be tempered by local circumstances. It is permissible from time to time for promotional prices to be offered, for competitive reasons. Prices may be a combination of interest rates and fees.

Borrowers who prepay mortgages from time to time will attract a penalty. Management will determine grounds for waiving of penalties, which will be clearly communicated in writing at origination of the facility. See Appendix B for circumstances where such penalties may be waived.

Specific Policy Guidelines

- a. The credit union is authorized by the Regulator in the form of a lending licence to offer a range of credit products and services in accordance with the needs of its members. Management will document prudent and appropriate lending criteria and procedures. Such criteria will include acceptable forms of security, and specific criteria for when security is not required. See Appendix C for further details.
- b. For the purposes of individual loan exposure and lending licence limits, connected loans are to be treated as a single loan.
- c. Mortgages on real estate will be supported by documentary evidence attesting to the value of the security. That evidence must be a full appraisal by an accredited

appraiser in cases where the loan is secured by property which carries financing in excess of 50% of the property market value. For other situations, a letter of opinion, or a property inspection by the credit union, should be commissioned, depending on the level of credit risk associated with the security. Management will establish a prudent framework for investigation into the credentials, professional experience and liability insurance of appraisers who are designated for the credit union's use.

- d. Residential mortgages typically do not present environmental risk unless the properties securing the loans are of fairly recent construction on land that has had some previous industrial use. Funds will not be advanced if:
- there is any readily available evidence of environmental risk
 - the property is on a known flood plain, and
 - there is any other known environmental factor which may compromise the value of the property for resale.

Lending Limits – Credit Union Level

Lending limits are set in accordance with the credit union's lending license to:

- a) loans, in aggregate, to any one individual borrower or to a group of associated borrowers (known as a "connection")
- b) total unsecured loans as a percentage of total loans (25 per cent)
- c) total under secured loans as a percentage of total loans (i.e. where the value of security is less than 50 per cent of total loan advanced)

Consideration should be given to minimize exposure of unsecured and under secured loans within the portfolio.

Lending Licences

New Licence

The credit union will apply for a new lending licence to be able to make loans from a class not already included in its lending licence or by-law by:

- a. seeking membership approval of a by-law permitting the credit union to apply to FSCO for a new lending licence.
- b. applying to FSCO and paying the appropriate fee.

Amended Licence

When the lending limits for a particular class become too restrictive to adequately service the needs of members, the credit union will apply for an amendment in its existing lending licence by applying to FSCO and paying the appropriate fee.

Lending Criteria and Processes

- a. A disciplined approach to lending will be maintained. Standard underwriting parameters for separate categories of loans will be documented in the Credit Risk Management Policy for guidance and assistance in lending decisions.
- b. The credit union will implement a prudent and efficient credit granting process. This process will encompass a thorough and effective credit investigation and analysis of the loan application to assess borrower's ability to repay, as evidenced by reported borrower background, cash flow (i.e., earnings) and capital (i.e., net worth). The process should address appropriate security documentation and registration, the use of accredited appraisers, lawyers, etc., and prudent funds disbursement (i.e., disbursements must be independent of loan approvals).
- c. Standard calculation methods include, but are not limited to: Gross Debt Service Ratio (GDSR), Total Debt Service Ratio (TDSR), Loan to Value Ratio (LVR) and Debt Service Ratios (see General Policy Guidelines, #6). Note: in no circumstance should mortgage advances exceed 75 per cent, without provision of additional third party insurance, such as that provided by CMHC.

Loan Approvals

Limits will be documented in a Letter of Authority (see Appendix A) and acknowledged by the lender. Joint limits will be set by the Board of Directors for approval of loans beyond an individual's limit.

All rewritten and renegotiated loans will be subject to meeting established lending criteria and will require an additional level of credit approval where the new loan maturity exceeds the original loan maturity by six months.

Control Systems and Procedures

- a. Loan and mortgage applications will be presented in a standard format for approval.
- b. All required security should be obtained before funds are advanced and appropriately safeguarded. The credit union may rely on approved solicitors to assist. An appropriate diary system should be established, to ensure that security

instruments held that contain expiry dates are renewed as required, to avoid loss of coverage or priority over other creditors. The credit union may utilize title or non-filing insurance products. Often personal property purchases are time-sensitive and it will be necessary for the credit union to be flexible with respect to taking security.

- c. A control system must be in place to prevent:
 - an advance of funds not properly authorized,
and/or
 - funds being disbursed by persons authorizing the loan or originating the loan.
- d. The credit union must ensure the implementation and maintenance of a system whereby loans are properly recorded in the computer database, payments are collected and recorded when due, arrears are noted in a timely fashion and regular periodic reports are produced. A procedure to ensure that interest rates charged on loans match the interest rates approved by the credit union from time to time must be in place.
- e. The credit union must maintain a reporting system that provides sufficient information to allow periodic and effective assessment of its loan portfolio.

Delinquent and Impaired Loans

- a. Loans which are in arrears or are considered to represent a potential loss to the credit union will be actively managed with the intent of avoiding loss from such impaired loans or mitigating loss to the greatest extent possible.
- b. Management will establish a process whereby loans in this category are effectively dealt with in a timely way which may include rewriting. Any refinancing of impaired loans shall be subject to established lending criteria and shall not be arranged in order to disguise loan impairment. Generally, no loan may be rewritten more than once within a 12-month period; recurring borrower requests for alterations of loan terms will be construed to indicate the loan is impaired.
- c. The Board of Directors will receive reports no less frequently than monthly on the status of delinquent and impaired loans. This report will include commentary on efforts to avoid or mitigate loss.
- d. Loans over 90 days in arrears will not have interest accrued. The credit union will establish and maintain an allowance for impaired loans that is the best possible estimate of probable losses in accordance with the requirements of DICO By-law No. 6 and section 22 of Regulation 76/95. The credit union will not capitalize

impaired loan interest as a method of resolving delinquency.

- e. All loans to be written off in whole or in part require the approval of the Board of Directors.

Notice of Sale

A notice of sale will indicate:

- a brief description of the collateral
- the sum of unpaid principal and accrued interest
- reasonable expenses incurred in repossessing, holding and insuring the collateral
- a statement that upon receipt of payment, the payer will be credited with any rebates or allowances to which the member is entitled by law or agreement
- a statement that any person entitled to the notice of sale may redeem the collateral upon payment of principal, interest and expenses as listed
- a statement that unless the amounts due are paid, the collateral will be disposed of and the member will be responsible for any shortfall
- the date after which the disposition of the collateral will be made, which must be at least 26 days after the mailing of the notice.

Redemption

The credit union will allow for collateral to be redeemed at any time after repossession, up to the time of sale, by the following persons:

- the member
- the guarantor
- any other party with a security interest in the collateral
- any other person or business to whom a notice of sale must be sent.

Restricted Party Loans

- a. Loans in excess of deposits to restricted parties such as officers, committee members and directors (or relatives of the same) must be approved by the board, possibly based on recommendations of a committee appointed by it, in accordance with section 208 of the Act. All such loans must be approved by at least two-thirds of the members of the board. An employee cannot approve or disburse loans to himself/herself.
- b. Any person, including staff or a committee member, whose loan or that of a

business associate, spouse, relative or related corporation is being considered will not participate in any part of the approval process and shall absent himself/herself from any meeting or discussion about the loan.

- c. Where loans to directors, officers or employees of the credit union are granted on a different basis from other members, then criteria for granting such loans must be developed as a human resource policy, approved by the Board of Directors, and separately reported on, in order to avoid the perception of a conflict of interest.

Annual Business Planning

The annual business plan that is presented to the Board of Directors for approval will be information dealing with credit matters and credit risk management. The plan will include narrative on actions and strategies designed to meet budget expectations. It is management's responsibility to ensure that the thrust and detail of the plan is effectively communicated within the organization.

Reporting Requirements

The **Treasurer/Manager** shall report to the board respecting the credit portfolio, no less frequently than monthly, on the following:

- Compliance with this policy and regulatory requirements
- Loan dollar volumes
- Large loans and aggregate loans held by connected and restricted parties
- Rewritten and formally restructured loans
- Impaired loans, recoveries and the allowance for impaired loans, including commentary about the adequacy of the allowance
- Loans needing to be written off, requiring board approval
- Other reporting requirements to be compiled by the credit committee as set out in section 24 of Regulation 76/95.

Compliance

- a. Annually, the Audit Committee will ensure compliance with this policy. The Audit Committee is responsible for developing and conducting an annual review of credit management procedures in place (including management reporting practices) relative to the Credit Risk Management Policy requirements established above, and will report its findings and recommend any necessary corrective action to the Board of Directors. The Audit Committee may engage the services of additional volunteers or experts to assist in the review.

- b. The external auditor shall conduct whatever tests are necessary regarding this policy, in order to meet generally accepted auditing standards, and shall report any shortfalls to the Audit Committee.
- c. The Board of Directors (in conjunction with the Audit Committee, as mandated under paragraph 26.17 of Regulation 76/95) will review written correspondence from **FSCO**, DICO or a designated stabilization authority regarding credit management matters, and will investigate and respond as appropriate.

Policy Approval and Review

This policy, and any subsequent recommended changes to this policy, must be approved by the Board of Directors and shall be reviewed annually for ongoing appropriateness by the board (or by a delegated subcommittee of the board).

PERSONAL LOANS

Definition

- a. The credit union will make loans in accordance with its licence.
- b. Loans to individuals for personal, family or household use will be made under the credit union's personal lending licence.

General

All loans must be considered in the context of providing creditworthy members with borrowing opportunities at a reasonable rate of return for the credit union.

Responsibility

The **Treasurer/Manager** is responsible for managing credit in accordance with this policy and the annual business plan. The credit union may use outside consultants for additional help in the management of its credit portfolio.

Objectives and Guidelines

- a. All exceptions to this policy must be fully documented and approved by the board.
- b. The credit union will grant loans for provident and productive purposes to eligible members.
- c. The credit union will charge a reasonable interest rate on loans. **Surplus income from this activity may be returned to eligible borrowing members.**
- d. Loans secured by the member's deposits in credit union investments are eligible for immediate approval providing both the promissory note and pledge of savings and deposits are signed by all the registered holders of all accounts being pledged.
- e. The credit union will be included as a loss payee on all insurance taken on personal property on which the credit union has taken a security interest if the loan secured by that interest exceeds **\$5,000**. Security will be based on documented sources (i.e. for vehicles, the Canadian Black Book or Auto Trader)
- f. No loan may be granted to a member whose existing loan is in default, except for the purpose of re-writing the loan to further improve the credit union's position.
- g. Under the *Credit Unions and Caisses Populaires Act, 1994*, loans used for a business purpose which do not exceed **\$25,000 or the personal loan limit, whichever is less** will be considered personal loans. These loans will be subject to the connected

persons rule. If the total exceeds \$25,000 or the personal loan limit, whichever is less the loan becomes a commercial loan and cannot be granted when there is no commercial lending licence.

- h. Application for a loan will be made in writing and in a form which will be prescribed by the Loan Manager and approved by the Board of Directors.

Upon request of a member the credit union will fax a loan application to them. The credit union will accept the return of the completed application by fax. On receipt of the completed application, the credit union will complete a credit investigation. If the loan application is approved, the credit union will prepare counter cheque(s) along with the original loan documentation for signature. Loan documents must be received in good order and signed with a witness at the credit union before the credit union will honour the counter cheque(s).

According to the Electronic Commerce Act, the credit union may also accept applications in electronic form, provided that the form is:

- organized in the same or substantially the same way as the specified paper form
 - sent to the credit union by e-mail
 - electronically signed by the member in a manner that is reliable for the purpose of identifying the member and where the application of the electronic signature with the e-mail application is reliable.
- i. When considering loan applications, the credit union will use a mix of criteria in the lending decision. Special considerations in the lending decision must be documented.
- j. Loan approvals will be valid for no more than 30 days. The approved interest rate will not increase during this period, but will decrease if the credit union's rates decrease.
- k. The term of a personal loan will not exceed five years.

Loan Rates and Fees

Interest rates and fees are approved by the board and amended from time to time based on market conditions. All costs that are incurred in the processing of loans will be charged to the member.

Fees will be monitored by management and any recommendation for changes will be forwarded to the Board of Directors for approval.

Note: Consideration should be given to the nature of the credit worthiness of the borrower and the level of security (fully secured, unsecured and under secured).

Note: Rates must be changed when prime rate changes as per Credit Union Central of Ontario's rate review advice.

Security

A security interest in a member's personal property including an automobile, truck, mobile home, recreational vehicle or boat can be taken by the credit union as collateral for any loan.

The credit union's security interest in the member's personal property is to be registered, usually by way of a financing statement, on all loans in the province in which the collateral is situated.

A substitution or release of security must be reviewed prior to approval. Employees of the credit union can approve the release of security if the original loan was within their limit. The *Personal Property Security Act* (PPA) registration will be discharged within **maximum 30** days after the loan is paid.

Credit Bureau

A credit bureau report will be initiated on:

- all new loan applications
- all existing loans where there is a possibility, or evidence, of deteriorating financial conditions.

A new credit bureau report will be required when a loan is refinanced if the previous report is over **six** months old.

The credit union does not require a credit bureau report when a loan is fully secured by collateral, which the credit union can realize readily (deposits, and marketable securities in the credit union's possession).

All credit investigations will:

- verify the facts on loan application
- verify the borrower's employment status
- treat refinanced loans as new loans
- establish that the borrower is not bankrupt

Searches

A thorough investigation of the borrower will be done:

- to establish the validity of the security under the *Personal Property Security Act* if the collateral is personal property
- to establish the state of the borrower's title to the collateral, if the collateral is real

- property according to the records of the relevant Land Registry Office
- with the sheriff's office to confirm that there are no writs of seizure and sale against the collateral, if the collateral is real property.

Co-signors/Guarantors

Those applying to guarantee or co-sign a loan are required to complete an application form and are subject to the same evaluation and investigation process as the principal borrower. Only those who meet the credit union's approval criteria will be accepted as a co-signor(s)/guarantor(s). A guarantor may be required based on the decision of the Credit Committee. The Credit Committee will decide on the number of guarantors considering the creditworthiness of the borrower.

Officers and Directors Acting as Co-signor or Guarantor

No director, officer or employee will co-sign, endorse, or act as guarantor for any borrower from the credit union unless the loan and the director's/officer's/employee's involvement in it was approved by the board as a restricted party transaction in the manner provided in the *Credit Unions and Caisses Populaires Act, 1994*.

Independent Legal Advice

If any possibility exists that any guarantor or co-signor is not fully aware of the obligation involved, or is acting under "undue stress", proof of independent legal advice must be obtained from the solicitor giving the advice.

Assignment of Wages

A member to whom a personal loan is extended will be required to sign an assignment of wages form:

- on all new and subsequent loan applications, regardless of the age or current employment status of the member, except loans fully secured by a deposit at the credit union
- on applications where there is a possibility of, or evidence of, a deteriorating financial condition, and no wage assignment was taken
- wage assignments must be registered through the PPSA for all loan amounts in excess of **amount** or at the discretion of the **Treasurer/Manager**.

Note: Household effects have no value as security. However, they can be taken for psychological reasons and so that other institutions will be unable to use them as collateral.

Re-negotiation of Terms

The **Treasurer/Manager** has sole authority to re-negotiate loans.

All requests for re-negotiations and temporary reduction of payments are to be reviewed by the **Treasurer/Manager** in accordance with DICO's by-laws. (Refer to By-law No.6.)

Note: The security documents must be redrawn or modified and registered where necessary. The term of the re-negotiated loan must not exceed the maximum term stipulated in the lending policies. Where the loan is secured in whole or in part by guarantors, the guarantors must sign the re-negotiation agreement.

Extension/Temporary Suspension

One extension may be granted within a **12 month** period. There must be at least six months between one extension and any subsequent extension.

Loan Statements

Personal loan statements will be produced **quarterly**.

Exceptions to this policy are members who receive on regular statement accounts, these members will continue to receive their deposit and loan statements as usual.

Demand Loans - General

A demand loan may be extended to a member who has a specific project whereby the loan can be readily retired within a specific time.

A demand loan is subject to satisfactory evidence that the member is able to convert it to a standard term loan should he/she plan to repay the entire balance outstanding on a specific date fail.

Demand loans may be approved for periods up to a maximum of **six months**, with interest to be calculated and paid monthly.

Line of Credit - General

An application for line of credit will be made in writing. Security will be handled as with loans. A line of credit will be available through a chequing account in minimum allotments of **\$100**.

The credit limit on a line of credit is between **\$500** and **\$15,000**. Interest rates are variable and are subject to the credit union's interest rate policy.

A minimum of **three per cent** payment of the authorized limit is required per **month**.

A review of each line of credit will be done by the **Treasurer/Manager** annually.

Overdraft Protection

The credit union will not permit a member to withdraw an amount which exceeds current deposits in an account, or exceeds the amount specified in an overdraft protection agreement.

An overdraft will be granted to a member only when an approved line of credit agreement is in place. The member must apply for overdraft protection and meet normal credit worthiness criteria.

Limits for overdrafts will be set by the **Treasurer/Manager**. All overdrafts will be approved by a properly authorized lending officer and documented in writing with a full signature.

Consolidation Loans

Consolidation loans require that all loan proceeds are controlled by the credit union. Cheques will be made payable to creditors on the member's behalf. In some instances (credit cards) the credit union will require an acknowledged card cancellation for the loan file (at the discretion of the Treasurer/Manager).

Motor Vehicle

This policy applies to loans for the purchase of motor vehicles, boats and recreational vehicles. It does not apply to consolidation loans.

The bill of sale and photocopy of ownership must be presented to the **Treasurer/Manager**.

If the purchase is from a private party, a lien search under the PPSA must be conducted. Any liens must be checked and a release of interest must be obtained.

A security interest in the collateral being purchased by the member will be taken on all loans.

An acknowledged insurance endorsement is required on any loan for personal chattels.

The maximum term for this loan will not exceed **five** years.

Mobile Home

A loan to purchase any mobile home that is not on a fixed foundation, or that is on leased property, will be treated as a personal loan with a maximum amortization of **ten**

years.

Rate: Subject to the credit union's interest rate policy.

Review: A review will be done on mobile home mortgages every **two** years due to the potential deterioration in the condition of the unit. An appraisal may be ordered for any review and the fee will be charged to the member.

Recreational Vehicle

Loans for the purchase of recreational vehicles such as boats, travel trailers, campers and snowmobiles will be amortized over a period, not exceeding **ten** years, which reflects the useful life of the asset.

The maximum loan: **100 per cent** of the appraised value or purchase price, whichever is less.

Rate: Subject to the credit union's interest rate policy.

Review: A review and possible renewal will be done on recreational vehicle loans no later than **five** years after the original loan date. A review is necessary due to the potential deterioration of the asset, a change in the borrower's financial situation or the possible need to re-price the loan.

Delinquency Control

The credit union will minimize the occurrence of loan delinquency by carefully scrutinizing all loan applications for completeness and accuracy. The **Treasurer/Manager** will be responsible for the collection of all delinquent loans.

Collection action will commence when a payment is more than five days past due. The **Treasurer/Manager** will be responsible for assuring that delinquency is kept within **one to two per cent of the total outstanding loans**.

Follow-up will include a collection notice, collection letter, or discreet telephone contact within the first **31** days of the delinquency. If the account has not been brought up to date within this time frame, it should be referred to the **Treasurer/Manager** for further follow-up.

When contact with a delinquent member does not occur, the credit union will immediately begin skip-tracing procedures.

A formal letter of demand will be issued to any delinquent member who is not willing to make mutually agreeable payment arrangements.

Delinquency should be resolved prior to the account becoming **90** days overdue.

The **Treasurer/Manager** will coordinate and produce a written report to the Board of Directors as part of its monthly report. The report will comply with the Regulations (section 24). This report will also be prepared in accordance with DICO's By-law No. 6.

The **Treasurer/Manager** will also be responsible for submitting a written report to the membership at the annual general meeting, which complies with the Regulations (section 25).

Loan Settlements

The credit union may accept, as payment in full, an amount less than what is required to pay the entire amount of principal and interest then outstanding if it is in the credit union's best interest. This only applies to loans which are delinquent for 12 months or more and are fully reserved for loss.

The **Treasurer/Manager** will conduct a complete investigation of the member's credit before deciding on a settlement. The information will be given to the general manager who has the sole authority to accept the settlement. All loan settlements will be reported to the Board of Directors at their next meeting.

Realization of Collateral

Realization on security can only take place when a loan is called either on a prescribed notice period or within a reasonable time, if the loan is a demand loan. Calling the loan accelerates the entire indebtedness. If the loan is not repaid then the loan and security documentation must be reviewed to determine the rights of the credit union.

Once rights are determined, an orderly realization should commence pursuant to the rights and duties prescribed by the common law and the *Personal Property Security Act* (if the collateral is personal property), or pursuant to the *Mortgages Act* and the terms of the mortgage agreement (if the collateral is real property).

All repossessions of assigned collateral will be processed by the **Treasurer/Manager**. All repossession warrants will be authorized by the **Treasurer/Manager**. Repossession of mortgaged real estate will be authorized by the **Treasurer/Manager** and will be processed through the credit union's solicitor in the form of a power of sale or foreclosure action.

The member will be given adequate notice of any sale of personal property pledged as collateral, at the discretion of the **Treasurer/Manager** through a Notice of Proposed Sale of Collateral document which will also be distributed to any existing co-signor or guarantor. The member will still be given the opportunity, until the collateral is actually sold, to stop the sale by repaying the loan.

At least **three** written, sealed bids, which will be subject to a reasonable reserve bid set by the **Treasurer/Manager**, will be received. Personal property will normally be sold on

an “as is” basis and any repairs etc. must be approved first by the **Treasurer/Manager**.

Directors, officers and employees of the credit union and their immediate families will be excluded from bidding on all repossessed real or personal property, except motor vehicles.

Write-offs

All loans deemed still collectible should not be written off until all collection efforts by the credit union have been exhausted. A delinquent loan should be considered for write off when:

- the borrower has declared bankruptcy
- no payment has been received for a period of six months
- the loan is contractually delinquent for six months.

Accounts may only be written off with the prior approval of the Board of Directors.

Note: Collection efforts will continue even when an account is written off. Once all collection efforts by the credit union have been exhausted, the account will be referred to an independent third party collection agency for continued follow up.

Bankruptcy

When a borrower has declared bankruptcy, collection efforts will be directed at the co-signer/guarantor unless they are also bankrupt.

Any liquid collateral (shares and deposits, cash, etc.) will be applied to the bankrupt borrower’s outstanding loan balance.

The credit union will not accept payment from a bankrupt borrower even if the payment is voluntary.

Strike Policy

It is the credit union’s policy to allow a member involved in a confirmed union strike action, to make payments of “interest only” for the duration of the strike on the condition that the loan was up to date prior to the strike. This will be done on an individual basis at the request of the member. An Extension Agreement form must be signed by all parties who signed on the original loan. An Extension Agreement will be approved and processed by the **Treasurer/Manager**. The **Treasurer/Manager** will report all extensions to the board monthly.

One-time Personal Loan

During a confirmed union strike, a member may be granted a separate one-time

personal loan not to exceed \$5,000. The following conditions must be met to qualify for this loan:

- the member must have had direct deposit and a chequing account with the credit union prior to the strike
- the member must qualify for the loan in all other respects:
 - debt ratio based on regular pay prior to the strike
 - good credit rating
 - adequate security (wage assignment, promissory note, collateral, etc.)
- the loan will be documented as a regular line of credit. Payments will be set at “interest only” until the strike is over, however, payments can be made at will. These loans will have a six month review date.

Note: This is a one-time loan and the member must be made aware that they should use their own funds prior to this request. The intent is not to over-extend the member, but to help him or her meet his or her monthly household costs.

MORTGAGE LOANS

Eligibility

Members of the credit union who have been approved by the Board of Directors, and who further qualify in accordance with the mortgage policy, bylaws and provisions of the *Credit Unions and Caisses Populaires Act, 1994* will be eligible for a mortgage.

Only property within the province of Ontario will be eligible for a mortgage.

Any property outside the city limits, exclusive of a subdivision or built-up area, will be classified as rural. The property must have an acceptable survey, or purchase survey impairment insurance, and be appraised by an accredited appraiser. Any property not connected to municipal water service should have a water quality test and septic system inspection certificate.

Credit Bureau

The credit union will obtain a credit bureau report on all applicants. The credit union will also calculate each applicant's net worth as part of the application process, to help determine whether it is sufficient for the mortgage for which the member is applying.

Debt Service Ratios

Acceptable income includes all income derived from employment, investments and net rental income. Spousal income may be considered for up to 100 per cent depending on quality.

Acceptable Properties

Properties acceptable for first mortgage loans are limited to:

- the applicants' principal residence, occupied by the applicant and held in single or joint ownership (either joint tenancy, or tenancy in common)
- income-producing properties owned or to be purchased solely or jointly by the applicant.

The types of dwellings acceptable for first mortgage loans are limited to:

- single family dwellings
- multiple family dwellings (of no more than four units when the owner occupies one unit)

- registered condominium units
- seasonal residences (exceptions are Association land, Lease-held corporations)
- single mobile home on property owned by the member

Amortization

Repayment of a first mortgage loan may be amortized over a period not to exceed 25 years from the date the mortgage is granted.

Mortgage Term

The term of a first mortgage loan or a home equity loan will not exceed five years.

Appraisals

Residential Full Appraisals will only be accepted from fully qualified practitioners who are:

- (i) members of the Appraisal Institute of Canada, and who have obtained and are authorized to use the Accredited Appraisers of the Canadian Institute designation (AACI) or the Canadian Residential Appraiser designation (CRA); or
- (ii) members of the Canadian Real Estate Association (and therefore the Ontario Real Estate Association), and who have obtained and are authorized to use the Market Value Appraiser – Residential designation.

Survey Requirements

The mortgagor(s) will provide a building location survey, at the mortgagor's expense on all mortgage loans, before mortgage funds are advanced. The survey must be dated and signed by a qualified Ontario Land Surveyor and examined and approved by the credit union's lawyer before mortgage funds are advanced.

The plan of survey must indicate:

- lot and plan number or concession number of mortgaged property
- measurements, and boundaries of lands
- all buildings and structures and their distances from boundaries of lands
- encroachments on or by adjacent lands
- location of all easements.

Existing Surveys

A photocopy of an existing survey of the property will be acceptable, providing all of the above information is clearly set out and the survey is accompanied by a statutory declaration by the mortgagors or predecessors in title. The statutory declaration must indicate that there have been no additions or alterations to any of the buildings or structures on the property since the date of the survey.

Exceptions

A survey will not be required in the following circumstances:

- If the amount of the mortgage is equal to or less than the value of the land (based on a proper appraisal)
- For completed family dwellings where all following conditions apply:
 - The property is located within the boundaries of a registered plan of subdivision and has municipal water and sewer services
 - The mortgage to value ratio is 50 per cent or less
 - The appraisal is accompanied by a statement from the appraiser indicating the side-yards appear to be sufficient and there appear to be no encroachments on or by the mortgaged property
 - The property was constructed prior to 1987.

Existing Mortgages

Note: The following exception applies to term renewals of existing mortgages.

If the credit union is refinancing an existing mortgage advanced before this policy came into effect when no new funds are being advanced and no survey is available, the credit union will not require a survey.

If there have been additions or alterations to the building since the last mortgage, the credit union will require a new survey.

Providing Copies of Surveys

The credit union will provide at no charge, a copy of the surveyor's certificate or plan of survey from an existing file only, upon request of the member or that member's lawyer.

Mortgage Pay Outs

The survey on a paid out mortgage will be forwarded to the member along with the discharged mortgage.

Survey Impairment Insurance

Survey Impairment Insurance is provided as part of the insurance package purchased by the credit union through CUMIS.

Insurance

Fire Insurance

Fire insurance with loss payable to the credit union in an amount at least equal to the value of the structure, as appraised by the credit union, is mandatory and must be maintained intact over the life of the mortgage.

Note: The policy will bear a clause indicating that loss is payable firstly to the credit union. Insurance policies are to be diarized by expiry date. Where the borrower fails to renew or update his/her coverage, the credit union may insure and add the cost to the member's mortgage.

Life Insurance

The credit union **will/will not** offer life insurance to members applying for mortgages.

The member should be encouraged to take out maximum life insurance on his/her mortgage.

Every mortgage will be accompanied either by a signed waiver or application in the file. If the application is declined for some reason, the member will be notified in writing. All of these documents will be reviewed before making any statement that a mortgage is or is not life-insured.

Title Insurance

The credit union **has/has not** subscribed to title insurance. Mortgages that qualify for this coverage are:

- **mortgages on residential properties (up to four units) where the property was previously purchased and is currently owned by the members**
- **conventional mortgages**
- **CMHC/GE Capital insured mortgages**
- **real estate secured lines of credit.**

Note: Follow the detailed guidelines established under the title insurance requirements in the Mortgage Loans manual.

Taxes on Mortgages

A copy of the tax certificate is to be obtained and any taxes owing must be cleared prior to disbursement of the mortgage funds. Borrowers will be allowed to pay their own taxes, producing annual receipts for the credit union.

Lawyer

If any possibility exists that any guarantor or co-signor is not fully aware of the obligation involved, or is acting under “undue stress”, proof of independent legal advice must be obtained from the solicitor giving the advice.

Instructions to the lawyer to draw the mortgage must be in writing and stipulate that the charge is to be a registered first charge on the property.

Note: Insert any exceptions pertaining to CUMIS coverage. On a second mortgage, the charge will be subject to the first mortgage.

Members may use their own lawyer to draw and register the mortgage documentation only if that lawyer is acceptable to the credit union and the lawyer acknowledges that he/she is acting in the credit union’s interest only.

The credit union requires the lawyer to provide the credit union with a signed Lawyer’s Final Report on Title giving his or her professional opinion on the credit union’s security position.

The credit union will consult a lawyer with experience in condominiums before granting a mortgage on a condominium unit. The credit union will check the following before granting a mortgage on a condominium:

- that the condominium corporation exists and is in good standing
- whether or not the condominium contract contains restrictive covenants, and if so what they are.

On qualifying mortgages, the credit union can opt to use title insurance in place of the Lawyer’s report on title (see, Title Insurance).

Mortgage Clauses

Clauses must be included in the mortgage to indicate, in addition to the usual recognized phrasing:

- compliance with the *Interest Act*
- a requirement that the mortgage be repaid if the borrower conveys the property to another person

- a requirement that the mortgage be repaid when the borrower ceases to be a member of the credit union.

Costs Incurred

All costs that are incurred in the processing of mortgages will be charged to the member.

Fees will be monitored by the **Treasurer/Manager** and any recommendations for changes will be forwarded to the Board of Directors for approval.

Mortgage Rates and Fees

Mortgage Rates

Rates will be established from time to time by the **Treasurer/Manager** and approved by the Board.

Condominiums (conventional rates apply)

The credit union will check the following before granting a mortgage:

- that the condominium corporation exists and is in good standing
- whether or not the condominium contract contains restrictive covenants, and if so what they are.

The credit union will consult a lawyer with experience in condominiums before granting a mortgage on a condominium unit.

Rate Blending

When a member requests a refinanced mortgage and the original mortgage is locked into a term at a lower rate, the credit union may offer a blended rate for the duration of the term.

Staff Mortgages

Approval

All staff are prohibited from approving mortgages in their own name or the names of their immediate family, and from processing transactions on mortgages in their name or the names of their immediate family **in accordance with Level Five's Risk Management Certification Standards.**

Preferred Rate

All employees, board or committee members, who have or obtain a mortgage at the credit union after **one** year of service, will receive a rate equal to **two** per cent below the posted rate at the time the mortgage is obtained or renewed.

Review of Employee and Board Mortgages

Individual transactions in all employee and board members' mortgages will be reviewed and documented each quarter by a senior staff member. Employees are prohibited from conducting this review on their own account **in accordance with Level Five's Risk Management Certification Standards.**

For further information on staff mortgages, refer to Human Resources, Chapter 13.

First Mortgages - Conventional

Subject to the provisions of the *Credit Unions and Caisses Populaires Act, 1994*, and Section 57 of the Regulations, conventional first mortgage loans may be granted in accordance with the general mortgage policies.

Interest rate guarantee:

- New Mortgage **60** days prior to advancement
- Renewed Mortgage Fixed **21** days prior to renewal date

Payments may be made **weekly/bi-weekly/bi-monthly/monthly.**

The value of the property must be determined prior to the release of funds. The value of the property will be the lesser of the appraised value or purchase price (where the mortgage is provided to finance the purchase) or the appraised value is per the section on appraisals where the mortgage is based on an existing property. The amount of the total mortgage cannot exceed 75 per cent of this value unless insured by CMHC or GE Capital.

Renewal

Mortgages will be renewable at the credit union's discretion and at the current rate of interest. Any agreement for renewal or extension of the terms of payment prior to the execution of a discharge of the mortgage by a mortgagee generally need not be registered in any registry or land titles office, but will be effectual and binding on the mortgagor.

A renewal fee will be charged and will be reviewed annually. On the renewal date, both the taxes and fire insurance must be up-to-date.

Closed Mortgages

A member may renew a mortgage before the end of its term on payment of the greater of:

- three months interest calculated on the principal balance
- the interest rate differential between the existing interest rate and the new interest rate to the end of the term of the mortgage
- payment of a minimum fee of \$250.

Members may apply for an early mortgage renewal only once during the term of a mortgage and twice during the amortization.

Sale of Property

If the mortgagor sells, assigns or otherwise transfers the mortgaged property, the principal secured thereby will become due and payable immediately, together with interest. The mortgage may also provide for payment of a penalty in this situation.

Prepayment on Closed Mortgages

The terms and conditions of prepayment before maturity of the mortgage are as follows:

- No prepayment may be made before the interest adjustment date (which is the date on which the term of the mortgage begins) specified in the mortgage.
- No prepayment may be made unless the borrower is complying with all of the borrower's obligations under the mortgage at the time of making the prepayment.
- At any time during each year of the term of a mortgage, the borrower may prepay up to **25 per cent** of the "original principal" amount of the mortgage without notice or bonus. The prepayment may not exceed **25 per cent** of the original principal amount in any one year, even if the borrower has prepaid less than **25 per cent** in previous years.
- Once during each year of the term of the mortgage, the borrower may increase the principal and interest portion of the monthly payment by up to **10 per cent** of the principal and interest payment "originally" required by the terms of the mortgage. This is done by giving written notice to the credit union at any time during the year. The increased payment will become effective on the date of the next payment following receipt of the borrower's request, and will remain in force until the next renewal date.
- No prepayment may be made following the interest adjustment date, except under (c) and (d) above. Also, the borrower may, at any time(s), prepay all or any part of the principal amount of the mortgage provided that the borrower pays a bonus of **three months interest** on the amount of the prepayment at the time of making the prepayment.

- Unless the borrower prepays the entire balance of the mortgage, the borrower must continue to make regular monthly payments every month.

Discretion to waive the prepayment penalty is outlined in Appendix B of the Credit Risk Management Policy.

Open Mortgage

Pay-out or pay-down of the mortgage will be accepted without prepayment charge at any time. Regular service fees are applicable.

Assumption of Mortgages

Mortgages to members are not assumable, and become due and payable on the sale of the mortgaged property or at any time if the member terminates his or her membership in the credit union.

Transfers of Mortgages

Definition

The transfer of a mortgage is the transferring of a mortgagee from another financial institution to the credit union.

Eligibility

Any credit union member who qualifies in accordance with the credit union mortgage policies.

Restrictions

Transfers will be limited to first mortgages on single-family owner-occupied dwellings.

Original mortgage must be from a financial institution recognized by the credit union. This includes schedule A banks, other credit unions and trust companies.

Exceptions to the foregoing will be at the discretion of the Treasurer/Manager.

Note: Collateral mortgages are not transferable. All transfer-in mortgages will be closed for a minimum of one year.

Variable Rate Mortgages

These mortgages are the same as conventional first mortgages with the exception of having a variable interest rate.

The rate will be set by the **Board of Directors**. The rate will be fixed on the first day of each month, subject to changes in the prime rate. Members will be notified in writing of any change to their existing mortgage rate.

The maximum amortization period cannot exceed 30 years. Payments will be fixed for the term of the mortgage. At the end of the term, payments will be reviewed and revised to ensure that the amortization period will not exceed the original amortization period.

The mortgage is fully open, but it is not assumable.

One-time conversion to a conventional fixed rate mortgage can be done through a Mortgage Conversion Agreement. A fee may be charged to the member for this service.

CMHC/GE Capital Mortgages

Canada Mortgage and Housing Corporation (CMHC) is a federal government agency which administers the *National Housing Act*. CMHC's NHA insured mortgage loans are backed by the Government of Canada. GE Capital is a private mortgage insurer.

If the mortgage/value ratio exceeds 75 per cent of the appraised value of the real estate, the mortgage can only be granted if it is insured by:

- the Government of Canada (or an agency of the Government of Canada or Ontario)
- or
- by policy of insurance issued by GE Capital, or an insurance company licenced under the *Insurance Act* to offer this class of insurance.

The insurance coverage provided protects mortgage lenders from losses resulting from borrower default.

Coverage is for 100 per cent of the amount of insured advances made for which premiums have been paid to **CMHC/GE Capital**, plus various other costs.

All terms and conditions must be in compliance with the policies and procedures as set by **CMHC/GE Capital**.

Mortgage ratios for residential owner-occupied properties is 90 per cent of first \$180,000 of value plus 80 per cent of balance.

Mortgage ratio for purchasers eligible under the **CMHC's/GE Capital's** Program for residential owner occupied properties is 95 per cent of the lesser of the appraised value of the property, or the purchase price.

Second Mortgages

The maximum mortgage is 75 per cent of the appraised value or the purchase price of the property, whichever is less. From this amount, the outstanding balances of all prior charges, including pay-out balances, must be deducted.

The maximum term is 20 years.

- A second mortgage is subject to a first mortgage.
- All documentation and eligibility requirements for a first mortgage apply to second mortgages.
- A statement of the balance owing, and confirmation that there are no arrears of payments, must be obtained in writing from the holders of any prior charges before funds are advanced.
- The credit union must obtain a copy of the prior charges, or obtain written confirmation from the holders of any prior charges to determine:
 - that the prior charges may be paid in full at any time
 - the amount of bonus, if any, required for an early pay-out.

This is necessary to assess the position of the credit union in the event that foreclosure action is required.

- The instructions to the lawyer to draw the mortgage must be in writing and stipulate that the charge is to be a registered second charge on the property.
- The credit union will require the lawyer to provide the credit union with a signed Lawyer's Final Report On Title giving his professional opinion on the credit union's security position.
- A conversion of a second or subsequent mortgage to a conventional first mortgage can be done using an amending agreement to change the rate, required payment and amortization. A fee will be charged to the member for this service.

Second mortgages may be taken as security for a personal loan against a property on which the credit union already holds a first mortgage, provided that the combined balance of both mortgages does not exceed 75 per cent of the appraised value of the property.

Mortgages - Mobile Homes

To qualify for a mortgage, the mobile home must be on a fixed foundation located on owner-occupied property.

Strike Policy

It will be the credit union's policy to allow a member who is involved in a confirmed union strike action to make payments of "interest only" for the duration of the strike. This will be done on an individual basis at the request of the member.

The mortgage must be up to date at the time the member requests the conversion to "interest-only" payments.

An Extension Agreement form must be signed by all parties who signed on the original mortgage. The Extension Agreement will be approved and processed by the **Treasurer/Manager**.

Board Reporting

The **Treasurer/Manager** will report these Extension Agreements to the board on a monthly basis.

Delinquency Control

If delinquency occurs, the member will be sent a collection letter formally demanding payment and allowed a grace period determined by the **Treasurer/Manager** to settle the payment. If payment is still outstanding, the **Treasurer/Manager** will start collection procedures.

The **Treasurer/Manager** will be responsible for the collection of all delinquent mortgages.

Board Reporting on Delinquent Mortgages

The **Treasurer/Manager** will coordinate and produce a written monthly report to the Board of Directors. The report will state the number and status of all outstanding delinquent mortgages and the details of each mortgage more than 90 days overdue. This report will comply with DICO's Bylaw No.6 and with the Regulations.

The **Treasurer/Manager** will also be responsible for submitting a written report to the membership at the annual general meeting containing the number and total value of delinquent mortgages that are more than 90 days overdue. This report will also comply

with DICO's Bylaw No.6 and with the Regulations.

Default Remedies

Mortgages must be enforced in accordance with the terms of the mortgage and with the *Mortgages Act*. Possible enforcement actions include:

- quit claim by the member in favour of the credit union, in full satisfaction of the debt
- an action for possession of the property and the sale of the property pursuant to the power of sale contained in the mortgage document or in the *Mortgages Act*
- an action for foreclosure.

The **Treasurer/Manager** will consult the credit union's lawyer regarding all mortgage enforcement actions.

Write-offs

Mortgage Loans with a deficiency balance outstanding will be referred to an independent third party collection agency for follow up.

CREDIT RISK MANAGEMENT APPENDICES

CONTENTS

Appendix A	Letter of Authority
Appendix B	Waiver of Prepayment Penalty
Appendix C	Authorized Credit Products, Terms and Conditions, Forms of Acceptable Security, and Eligible Loan Purposes

Appendix A
Sample Letter of Authority

Credit Union

Address

City

To: Credit union employee

In accordance with General Policy, following is your authority to approve loans effective the day of receipt. You are required to sign the acknowledgement below which confirms your receipt and understanding of these limits, lending policies, the credit union's by-laws and the relevant sections of the *Credit Union and Caisses Populaires Act, 1994*.

YOUR INDIVIDUAL LIMIT - PERSONAL LOANS

Your aggregate limit for all personal loans (non-mortgage) to any one individual is \$ _____ over and above any amounts loaned to the individual which are fully secured.

YOUR INDIVIDUAL LIMIT - FULLY/CASH SECURED

Fully cash secured loans are those which are made to an individual and have an equal or greater amount of properly pledged credit union deposits or Canada/Ontario Savings Bonds securing them. The individual(s) owning the deposits/bonds must be the primary borrowers. Loans which have deposits/bonds pledged by guarantors are not considered fully/cash secured and fall under normal personal loan limits.

Your limit for fully/cash secured loans is \$ _____.

YOUR INDIVIDUAL LIMIT □ MORTGAGES

Your aggregate limit for all mortgage loans, which have been properly underwritten in accordance with Sound Business Practises, to any one individual is:

CMHC \$ _____

Conventional \$ _____

Note: For loan to value ratios on conventional mortgages refer to loan policy.

LOANS IN EXCESS OF YOUR LIMIT

Joint Approval \$ _____

Management Committee Approval \$ _____

Board Approval \$ _____

As an officer of **the credit union**, you are required to adhere to these limits, policies, by-laws and the act. As stated in policy you are prohibited from approving loans or processing transactions on loans in your own name or for persons related to you including:

- all blood relatives
- all relatives through marriage or common-law relationships.

MODEL POLICY

Loans and Mortgages

Credit Risk Management Appendices - Less Complex

ACKNOWLEDGEMENT

I confirm receipt and understanding of the limitations set out in the above letter. I will act in accordance with these limitations, current and future policy, the credit union's by-laws and the *Credit Union and Caisses Populaires Act, 1994*.

Dated at _____ this _____ day of _____, _____.

Employee signature

Employee name (print)

Witnessed by supervisor/manager

Name (print)

Distribution

1. Head office personnel file
2. Branch Manager
3. Employee

Appendix B
Waiver of Prepayment Penalty

Penalties for mortgage prepayment agreed to in writing will be levied in full except in the following circumstances.

<u>Situation</u>	<u>Discretion Guideline</u>
Situations of fire or natural disaster where the land improvements are accidentally destroyed and an early payout is requested.	Discretion to waive the full penalty.
The property is sold and the new owner wishes to assume the current mortgage.	Discretion to waive the full penalty.
The borrower changes dwellings and refinances with the credit union.	Partial waiving is preferable but discretion to waive the full penalty.
The borrower renews early and the only change is the interest rate and/or principal.	Discretion to waive a portion of the penalty.
The cost of the penalty exceeds the income foregone.	Discretion to waive a portion of the penalty.
Forgiveness would allow recovery of other indebtedness or facilitate other advantage.	Partial waiving is preferable but discretion to waive the full penalty

Appendix C
Authorized Credit Products**Terms and Conditions, Forms of Acceptable Security & Eligible Loan Purposes****Authorized Credit Products**

1. Residential mortgages, first and second
2. Personal loans, secured and unsecured
3. Lines of credit

Terms and Conditions

Loans as noted above may be granted on either a floating rate basis or a fixed rate basis in accordance with the wishes of the borrower, the characteristics of the loan in question and the capacity of the credit union to grant fixed or floating credit. Term mortgages can be amortized up to 25 years, automobile or recreational vehicle loans up to 10 years, all other term loans up to five years.

Forms of Acceptable Security for Personal Loans and Mortgages, when security is taken

1. Mortgage against real property
2. Certain personal property
3. Stocks (including mutual funds) traded on the Toronto Stock Exchange for a minimum of five dollars in the previous year
4. Canadian federal and provincial government bonds and certain Canadian corporate bonds
5. Cash surrender value of life insurance policies as confirmed by insurer
6. Credit union shares and term deposits (excluding RRSPs)
7. Other forms of security deemed acceptable by management

Security documents are to be prepared by approved solicitors or, where deemed appropriate by management, may be prepared in-house. General Security Agreements should be used where possible, registered under *Personal Property Security Act*.

Eligible Loan Purposes

The credit union is authorized to extend credit for individual personal lending needs of all types including residential mortgages on properties which have been tested for UFFI and are below acceptable levels (note, a residential property would only be tested if it is suspected to include UFFI).