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DUCA Financial Services Credit Union
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November 10th, 2020

Financial Services Regulatory Authority of Ontario:

Thank you for providing DUCA the opportunity to review and provide feedback on the Residential Mortgage Risk Governance Guidance Interpretation and Approach Guide.

Generally, the documents are easy to understand, well thought through and follow a consistent principle based approach. This principle based approach is important for the guidance to remain suitable for small and large credit unions.

There are some specific sections that we feel may require further clarification, require correction or require adjustment. Below are the sections, specific items and our related feedback.

1. ***Debt Servicing Ratios Methodology and Stress Testing*** *– Does the credit union set prudent policy limits for each debt service ratio including maximum limits for stress-tested ratios?*

   We agree with the principle that credit unions should have limits for debt service ratios. We also believe credit unions should assign different debt service maximums for different borrower types (salaried, business for self, investors, etc.), product types (amortizing, revolving, etc.) and risk segments (insurable, conforming, non-conforming, etc.).

2. ***Debt Servicing Ratios Methodology and Stress Testing*** *– Does the credit union's Underwriting Policy require ratio analysis to assess a residential mortgage applicant's risk of default, such as: percentage of unsecured debt to income; and Loan to Income Ratio (LTI)?*

   The specific examples listed are uncommon measures that duplicate risk assessment already done through existing credit scores and debt service ratios. This item should be removed.

3. ***Residential Mortgage Products*** *– Does a credit union's residential mortgage credit policy contain a comprehensive, risk based description and definition of what constitutes a non-conforming residential mortgage, including reverse mortgage lines of credit, (eg. any loan that breaches the stated risk appetite/tolerance, criteria, limits or guidelines contained in its credit*

policy)? Does the policy include determining its risk tolerance (appetite) for, and a process for dealing with, "non-conforming" loans?

We agree with the principle that credit unions need to define and limit non-conforming loans. It should be up to the credit union to define this based on its own risk tolerance, size, diversification and sophistication.

4. ***Use of Key Risk Indicators and Early Warning Indicators** – Has the credit union identified and actively monitored key residential mortgage risk drivers and quantitative and qualitative early warning indicators (EWIs) and triggers for action?*

   We agree with the principle that credit unions need to monitor risk drivers and take the proper action. This specific item duplicates the credit union's monitoring of credit exposures and borrowers, stress testing and sensitivity analysis, loan loss provisioning as well as default management processes and practices. As these are already covered in other sections of this guidance and other guidance, this item should be removed.

5. ***Watch-List** – Has the credit union established policies and procedures for identifying, monitoring, managing and independently assessing residential lending exposures with increased risk, including those identified though the monitoring of EWI?*

   We agree with the principle that credit unions need to monitor risk drivers and take the appropriate action. Watch lists, however, are better suited for commercial portfolios and are impractical for larger residential mortgage portfolios. This also duplicates the credit union's monitoring of credit exposures and borrowers, stress testing and sensitivity analysis, loan loss provisioning as well as default management processes and practices. As these are already covered in other sections of this guidance and other guidance, this item should be removed.

Feel free to reach out to me if you would like to discuss any of the feedback.

Sincerely,

Jonathan Goodman
Vice-President, Retail Credit
DUCA Financial Services Credit Union