Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

House Loans in Credit Unions – Thematic Review Findings

January 2018

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1. Executive Summary

Credit unions are permitted under the Credit Union Act 1997 ('the 1997 Act') to provide longer term loans to their members subject to the maturity limits set out in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 ('the 2016 Regulations'). Under the 2016 Regulations credit unions are permitted to provide a class of loans called 'house loans'.

The Central Bank of Ireland ('the Central Bank'), as part of its programme of thematic reviews of the credit union sector, selected a sample of house loans as an area for review. The purpose of the thematic review was to assess the standards of governance and procedures relating to the issuance of house loans for a sample of credit unions and set out key findings and recommendations arising. The thematic review focused on prudential risk and included both a desk-based assessment of relevant documentation as well as onsite engagements in the selected credit unions.

The thematic review of house loans assessed:

- Governance practices;
- Credit underwriting practices; and
- Compliance with the legislative and regulatory requirements, and with the legal process.

This report sets out the main findings from the thematic review of house loans. It appears that some credit unions have commenced house loan lending without fully assessing and implementing a well-developed business plan. Additionally, during the review, we found weaknesses in underwriting practices, risk oversight and compliance systems.

In the course of the review, we also identified some instances of good practice including examples of robust business plans, supported by cost benefit analysis and strong underwriting practices including appropriate levels of oversight.

We expect all credit unions to review the findings and recommendations set out in this report and consider how these can inform decision-making when considering the provision of house loans to members, including ensuring the appropriate systems and controls required are in place to offer such loans.

All credit unions selected for the thematic review will be required to implement a range of actions designed to mitigate the specific risks identified, which include credit underwriting and credit risk management standards and practices in relation to house loans. Any required actions are communicated to each credit union in the form of a risk mitigation programme.

Credit unions should be aware that the Central Bank will use its supervisory and enforcement powers to protect members' savings where there is evidence that credit unions have not complied with, or are unwilling to comply with, all their legal obligations in relation to the lending function.

Summary Findings

Governance Practices

- Lack of detailed business plans and inadequate rationales for providing house loans;
- Lack of clearly defined credit risk appetite statements;
- Weak lending policies and supporting procedures;
- Asset/liability management policies failing to adequately consider house loans and set appropriate policies in this regard; and
- Inadequate oversight by boards of directors and internal control functions.

Credit Underwriting Practices

- Poor quality underwriting including inadequate assessment of repayment capacity;
- Insufficient proof of income and other required documentation to support the decision for granting a loan;
- Absence of interest rate stress testing or, where conducted, an absence of communicating the results of such stress testing to members;
- Failure to obtain confirmation from members as to the source of the balance of funds for the purpose of house purchase; and
- Failure to specify requirements for self-build house loans, and where specified, failure to support these requirements with detailed processes and procedures.

Compliance with the Legislative and Regulatory Requirements, and Legal Process

- In 99% of the loan files reviewed, credit unions obtained a valid solicitor's letter of undertaking or a first legal charge over the property to be secured over the loan;
- Deficiencies in supporting documentation to evidence compliance with the Central Bank (Supervision and Enforcement Act) 2013 (Section 48[1]) (Housing Loan Requirements) Regulations 2015 regarding Loan to Value (LTV) and Loan to Income (LTI) requirements ('the 2015 Regulations');
- Inadequate detail included on property valuations held on file, and failures to address the valuation to the credit union, in respect of a first legal charge being held;
- Failure to obtain confirmation of the independent property valuers professional indemnity insurance ('PII'); and
- No evidence to confirm that a Family Home Declaration was held on file.

Details of the findings above are outlined in Section 6 with recommendations for credit unions to implement outlined thereafter in Section 7.

[1] Central Bank (Supervision and Enforcement Act) 2013 (Section 48) (Housing Loan Requirements) Regulations 2015

2. Background

The board of directors of each credit union have responsibility for the general control, direction and management of a credit union. Credit unions are required to have an effective governance framework and appropriate systems and controls to meet their legal and regulatory requirements, including risk management, compliance and internal audit functions.

Credit unions provide savings and loans services to members, traditionally in the form of short-term lending. The 2016 Regulations permit credit unions to provide longer term lending to members as follows:

- Overall lending greater than 5 years is subject to a 30% limit of total lending; and
- Lending greater than 10 years is subject to a 10% limit of total lending.

These lending limits may be increased to 40% and 15% respectively for individual credit unions with Central Bank approval.

Following commencement of the 2016 Regulations, credit unions are permitted to provide house loans up to a maximum term of 25 years, subject to specified limitations.

House loans involve a different risk profile for credit unions to their short-term unsecured lending. Engaging in house loans represents a change in strategy and requires an understanding of the risks associated with this type of lending. Additionally, there are a range of important risk considerations that credit unions need to address before providing house loans to their members, e.g. business plan, governance, credit underwriting, legal process as well as the credit union's own capabilities and resources.

A decision to proceed with the provision of house loans to members requires critical assessment of the costs and benefits as they apply to the credit union, as well as its membership profile, common bond, financial and operational capabilities. These considerations are clearly outlined in detail in the Central Bank's 'Long Term Lending – Guidance for Credit Unions' issued in December 2017[2]. The guidance outlines the key risk factors for consideration by the board of directors of a credit union when engaging in longer term lending activities. It also outlines the financial implications including the potential impact on loan interest income, operating costs, return on assets, balance sheet structure, asset/liability management and maturity transformation.

[2] 'Long Term Lending – Guidance for Credit Unions'
https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/applying-for-approvals/long-term-lending-guidance-for-credit-unions.pdf

3. Current Sector Overview

As at 30 September 2017, credit unions reported via Prudential Returns, total assets of €16.78 billion and gross loans of €4.45 billion, of which house loans represent €146.3 million or 3.3% of total gross loans.

In the September 2017 Prudential Return, 107[3] credit unions reported that they had outstanding house loans. The sample selected for the purpose of this thematic review included 16 of those credit unions. This sample represents 20% of total sector assets and 43% of the total stock of outstanding house loans reported.

Number of House Loans in Range	Number of Credit Unions	Total House Loan Amount €	% of Total House Loan Stock
1 to 15	63	17,691,807	12.09%
16 to 30	29	33,345,348	22.80%
31+	15	95,238,952	65.11%
TOTAL	107	146,276,107	100.00%

Figure 1 below represents the number of credit unions who reported house loans as at 30 September 2017.

- 63 credit unions reported having 1 to 15 house loans, representing 12% of the total sector house loan stock;
- 29 credit unions reported having 16 to 30 house loans, representing 23% of the total sector house loan stock; and
- 15 credit unions reported having 31+ house loans, representing 65% of the total sector house loan stock;

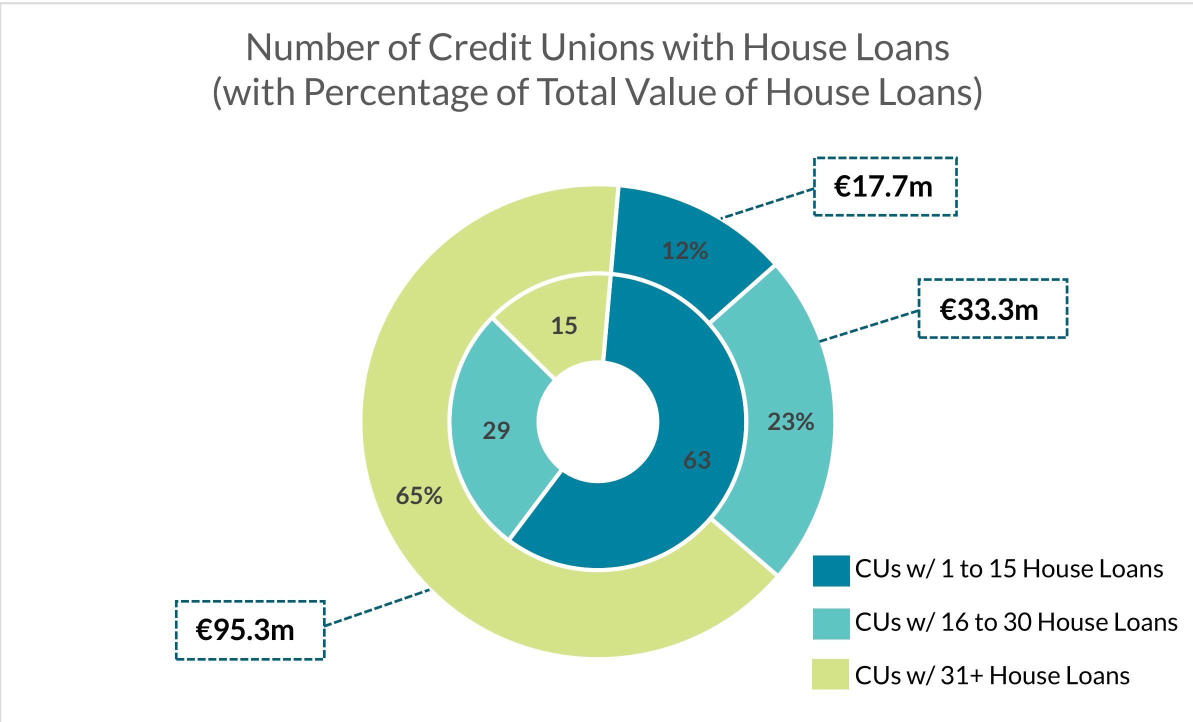

Figure 1

[3] The '*Financial Conditions of Credit Unions: Issue 2*' Report issued in December 2017 specifies a total figure of 106. This figure was issued prior to any prudential return resubmissions made by credit unions.

4. Regulatory Framework

Under the 2016 Regulations, a credit union is restricted to prescribed categories of loans, including house loans. Lending is also subject to maturity limits and other requirements set out in the 2016 Regulations.

a. Legislation

Sections 35, 36, 37, 38 & 55 of the 1997 Act set out the legislative requirements for credit unions in relation to the provision of loans to their members.

b. Regulation

The 2016 Regulations identify house loans as a category of lending for credit unions. The 2016 regulations require that credit unions must hold the first legal charge on the property for which the loan is being provided when providing a house loan.

House loan is defined as a loan made to a member secured by property for the purpose of enabling the member to:

a. Have a house constructed on the property as their principal residence;
b. Improve or renovate a house on the property that is already used as their principal residence;
c. Buy a house that is already constructed on the property for use as their principal residence; or
d. Refinance a loan previously provided for one of the purposes specified in (a), (b) or (c) for the same purpose.

The Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 contain LTV and LTI ratios known as "Section 48 Requirements". These requirements apply to credit unions.

c. Credit Union Handbook

The Credit Union Handbook provides guidance to credit unions in respect of house loans in the Lending Chapter.

d. Other Legislative Requirements

Credit unions are within the scope of the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 (S.I. No. 142/2016) (effective March 2016). While not within the focus of this thematic review, credit unions need to be aware of all obligations related to providing house loans and not solely limited to credit union specific requirements. These broader requirements aim to ensure that all prospective borrowers benefit from the highest level of protection.

5. Objective and Methodology

5.1 Objective

The objective of the thematic review was to review the standards of governance and lending practices for house loans in the credit union sector, which included the following:

a. **The governance practices including:**
   - The credit unions rationale for providing house loans to members and their risk assessment and business plan for providing house loans, including a review of asset/liability management, credit policies, credit risk appetite statement and how this process informed the aforementioned rationale;
   - An assessment of the level of compliance with relevant requirements, oversight by internal audit of house loans and the quality of reporting to board and management; and
   - The skills and experience of the house loan underwriting function.

b. **Assessment of credit underwriting practices:**
   - Compliance with legislation, regulations, guidance and best practices.

c. **Credit unions legal process for house loans:**
   - The legal process referred to in this report included a review of the procedures by credit unions in taking security on members' properties together with the associated documentation e.g. property valuations, fire insurance cover and member life assurance cover.

5.2 Methodology

The onsite inspections were conducted as part of scheduled PRISM supervisory engagements during quarters 2, 3 and 4 of 2017. The assessment process included the review of documentation provided in advance of the onsite engagement, onsite review of house loan files and meetings with credit union officers. Any required actions are communicated to each credit union in the form of a risk mitigation programme.

The thematic house loan inspections focused on the following areas:

- Governance practices;
- Assessment of the credit underwriting practices; and
- Compliance with legislative and regulatory requirements, and the legal process.

The 16 credit unions selected for inclusion in the thematic review held total assets in excess of €3.3 billion[4], with gross loans of €983 million. The credit unions in the sample reported house loans of €62.8 million, representing 43% of the overall value of reported house loans of €146.3 million. For the purposes of this report only those house loans that were issued post-commencement of the 2016 Regulations on 1 January 2016 were included.

The sample was chosen to represent the diversity of the credit union sector and included credit unions from both urban and rural areas, as well as industrial and community-based. The largest credit union in the sample had total assets in excess of €250 million and the smallest had total assets of just under €45 million.

As part of the review, in excess of 150 member house loan files were reviewed across the sample.

[4] 30 September 2017 Prudential Return

6. Findings

The following section outlines the findings from the thematic review of house loans.

6.1 Governance Practices for House Loans

The findings in the area of governance practices identified several weaknesses in relation to the oversight of the house loans process. The majority of credit union boards and management had not established effective credit risk management standards for house loans. These findings include the following:

- Deficiencies in the overall business strategy supporting the decision to provide a house loan product to members;
- Shortcomings in both credit policies and asset/liability management policies with regards to risk considerations associated with house loans;
- Risk appetite statements were not reflective of the current product offering;
- Internal control frameworks were inadequate or in some cases absent; and
- In some instances, lending officers were unable to demonstrate an understanding of the assessment process applied when granting house loans to members.

Findings relating to Governance Practices for House Loans

Suitability of Business Decision to Provide House Loans

- 10 of the 16 credit unions reviewed had not prepared a detailed business plan and had an inadequate rationale for providing house loans as a product. This included an insufficient or absent risk assessment and cost benefit analysis associated with underwriting house loans, including but not limited to product pricing and the regulatory/legal costs associated with house loans.

Credit Policy

- The majority of credit unions in the sample (12 of the 16), had an inadequate credit policy for house loans and the policy was not supported by detailed procedures to assist underwriters in the credit risk assessment of house loans. This included, but was not limited to, an absence of any policy in relation to self-build properties and a lack of detail regarding requirements to verify income, as well as limited documented procedures; and
- The impact of a lack of comprehensive procedures in this area is detailed in Section 6.2 on underwriting practices.

Asset/Liability Management Policy[5]

- 13 of the 16 credit unions did not have suitable asset/liability management policies. The policies did not consider the implications of funding models for longer term lending; and
- The financial impact on future income streams for long term products with low rates of return had not been considered.

[5] Reference Long Term Lending Guidance for Credit Unions issued December 2017

House Loan Risk Appetite

- 14 of the 16 credit unions did not adequately document their credit risk appetite for house loans. Board approved risk appetite statements were lacking in detail which included the credit union's risk limits for house loan lending.

Internal Control Framework

- In 6 of the 16 credit unions, there was no evidence of oversight by the risk management, compliance or internal audit function with regards to the house loans process; and
- This lack of oversight was evidenced by the number of deficiencies identified in underwriting practices detailed in Section 6.2.

Mortgage Skills

- In 7 of 16 credit unions, lending officers responsible for house loans did not demonstrate that they had the experience and skills necessary for mortgage underwriting function. This was evidenced through a lack of demonstrable understanding of the assessment process that should be followed in granting house loans.

Other Findings Pertaining to Governance Practices

- In a small number of credit unions, inaccuracies regarding information recorded on the credit union's management information system relating to the value of security held were noted. This may result in inaccurate reporting and incorrect management information.

Table 1 overleaf outlines these findings across the sample selected.

Good Practice observed relating to Governance Practices for House Loans

Notwithstanding the above, the supervision teams noted some examples of good practice identified in the area of governance practices which included:

- A detailed business strategy to support the provision of house loans including a cost benefit analysis; and
- An asset/liability management policy, which considered long term lending implications and underwriters who demonstrated an understanding of the assessment process in granting house loans.

Table 1

House Loans Governance Practices						
Credit Union	**Deficiencies in Suitability of Business Decision to Provide Mortgages**	**Weaknesses in Credit Policy**	**Weaknesses in Credit Risk Appetite**	**Weaknesses in Asset/Liability Policy**	**Weaknesses in Internal Control Framework**	**Deficiencies in Mortgage Underwriting Skills**
1	X	X	X	X		
2		X	X			
3	X	X	X	X	X	
4		X	X	X	X	
5				X		X
6		X				X
7	X	X	X	X	X	X
8	X		X	X		X
9	X	X	X	X	X	X
10	X	X	X	X	X	X
11	X		X	X		
12			X	X		
13	X	X	X			
14	X	X	X	X		X
15		X	X	X	X	
16	X	X	X	X		
Total	**10**	**12**	**14**	**13**	**6**	**7**

6.2 Assessment of the Credit Underwriting Practices

The ability of the loan applicant to repay should be the primary consideration in the credit underwriting process, as required under Section 35(2) of the 1997 Act.

The findings in the area of credit underwriting practices highlighted several instances of inadequate underwriting practices. These findings include the following:

- Deficiencies in the assessment of the borrower's ability to repay the loan;
- A lack of appropriate supporting documentation on file evidencing the borrower's income;
- An absence of interest rate stress testing or an absence of communicating stress testing results to members;
- Credit assessment rationales held on file were not comprehensive and could not be independently assessed; and
- Instances where the source of balance of funds (for example savings, gift from 3rd party) for the purchase of the house was not confirmed by the credit union.

Findings relating to Credit Underwriting Practices for House Loans

Member Affordability Assessments

- Credit unions in the sample use a Debt Servicing Ratio/Debt Income Ratio (DSR/DTI)[6] when assessing a member's repayment capacity. Of the 16 credit unions reviewed, 9 did not include reasonable[7] living expenses when calculating these ratios or when calculating an overall assessment on the applicant's affordability.

Income Documentation

- In 7 of the 16 credit unions there was a lack of supporting documentation on file including the absence of P60s, salary certificates or an insufficient quantity of supporting payslips; and
- In the case of industrial credit unions, where the salary scale of one of the applicants is known, this does not negate the requirement to obtain supporting documentation for all borrowers.

Stress Testing[8]

- In 9 of the 16 credit unions there was no evidence that stress testing of interest rates was conducted; and
- In the cases where stress testing of interest rates was conducted, the results of increased repayment obligations arising from these stress tests were not communicated to applicants in all cases.

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[6] DSR/DTI is the applicant's credit union debt repayments and other debt expressed as a percentage of their total income. The range of DSR/DTI detailed in credit union policies ranged from 35% to 50%.

[7] Minimum standard of living which allows for expenses such as food, clothing, health, household goods and services, communications, socialising, education, transport, household energy, childcare, insurance etc. See BackonTrack.ie for guidelines and calculator on reasonable living expenses.

[8] Industry best practice is to stress test loan repayments assuming 2% interest rate rise to assess affordability.

Credit Decision/Assessment Rationales

- In 9 of the 16 credit unions, the credit assessment rationales on the borrower's file outlining the decision/rationale for granting the house loan were not comprehensive;
- A lack of supporting documentation on loan files resulted in an inability to independently assess the rationale; and
- There was evidence across files of member financial stress during the application process including unpaid items visible on bank statements and indications from credit referencing agency profiles of members' inability to meet current financial commitments. In these cases, the rationale for granting the loan was unclear.

Proof of Balance of Funds

- 9 of the 16 credit unions did not obtain confirmation from the member as to the source of the balance of funds for the purpose of house loan purchase (for example gift, savings held by member).

Other Findings pertaining to Underwriting Practices

- Financial statements, business and personal bank statements and up to date tax confirmation were not always obtained for self-employed borrowers;
- In some cases, there was a significant gap between the date of the bank statements and the loan approval date. In other cases, bank statements were missing or not held for all parties or all relevant borrower bank accounts (including any existing mortgage debt and credit card debt); and
- The credit policies of 6 of the 16 credit unions did not specify the requirements for self-build loans and were not supported by detailed processes and procedures in this area.

Table 2 overleaf outlines these findings across the sample selected.

Good Practice observed relating to Credit Underwriting Practices for House Loans

Notwithstanding the above, the supervision teams noted some examples of good practice identified in the area of underwriting practices which included:

- A clear demonstration on file of the borrower's ability to repay the loan; and
- The above was supported by comprehensive evidence of member income and comprehensive rationales on file for granting the loan.

Table 2

House Loans Underwriting Practices					
Credit Union	**Deficiencies in Affordability Assessment including Weaknesses in Calculation of DSR/DTI ratios**	**Weaknesses in completeness of Income Documentation**	**Weaknesses in Interest Rate Stress Testing**	**Weaknesses in Credit Decision Rationales**	**Deficiencies in obtaining proof of balance of funds**
1	X	X	X	X	X
2		X	X	X	
3					X
4	X		X	X	X
5					
6			X	X	X
7	X	X	X	X	X
8	X	X	X	X	X
9	X	X	X	X	X
10	X				
11					
12					X
13					
14	X	X	X	X	X
15	X				
16	X	X	X	X	
Total	**9**	**7**	**9**	**9**	**9**

6.3 Legislative and Regulatory Requirements, and Legal Process

In 99% of the files reviewed (148 of 150), a first legal charge over the property relating to the house loan was in place or the credit union had a valid solicitor's letter of undertaking to put the charge in place.

In the files reviewed, there were several shortcomings with documentation maintained by a number of credit unions to support their compliance with the provisions contained within Section 48 Requirements with regards to LTV and LTI requirements. These included insufficient levels of documentation, verifying applicants' income and valuations of properties subject to a first legal charge. In some instances they were either absent or lacking in sufficient detail.

Separately, other aspects of the legal process were not deemed effective. Weaknesses in these areas could impact on the legality and enforceability of the credit union's security held. The weaknesses are summarised below:

- Proof of fire insurance cover not evidenced;
- Valuations not addressed to the credit union and valuation itself lacking in detail;
- An absence of confirmation from the property valuer regarding their PII;
- Family Home Declarations not evidenced where applicable; and
- Gift waivers not obtained where applicable.

Findings relating to Legislative and Regulatory Requirements, and Legal Process

Section 48 Requirements

- In 13 of the 16, credit unions there were weaknesses in the supporting documentation evidencing required compliance with the 2015 Regulations. Weaknesses included: (i) absence of P60s or salary certificates to confirm an applicant's income and (ii) valuations on the property over which the credit union is taking a first legal charge either being absent or lacking in detail.

Fire Insurance

- In 7 of the 16 credit unions, proof of the credit union's interest noted on the relevant fire insurance policy was not evidenced; and
- Where fire cover was in place, it was not always held for the full reinstatement value of the property.

Property Valuations & Property Valuers

- In 9 of the 16 credit unions, the property valuation, in respect of the house subject to a first legal charge, was not addressed to the credit union;
- In 9 of the 16, credit unions the same property valuation did not contain sufficient detail including a description of the property and a reinstatement value; and
- In 11 of the 16 credit unions, confirmation of the property valuer's PII was not obtained.

Family Home Declaration Act 2006[9]

- In 9 of the 16 credit unions, evidence was not available to show that the Family Home Declaration was held.

Gift Waivers[10]

- In 7 of the 16 of the credit unions, gift waivers were not obtained over gifts made to members from third parties, providing members with financial assistance in purchasing a property.

Other Findings Pertaining to Legislative & Regulatory Requirements and Legal Process

- In 4 of the 16 credit unions, evidence was not on file that an adequate level of life assurance was in place. Credit unions should consider the elevated risk aspects of such loans in the event that life cover is not held.

Table 3 overleaf outlines these findings across the sample selected.

Good Practice observed relating to Legislative & Regulatory Requirements and Legal Process

Notwithstanding the above, the supervision teams noted some examples of good practice identified in the area of legislative & regulatory requirements and legal process which included:

- A stand-alone valuations policy, which outlines a requirement for valuers to be members of Institute of Professional Auctioneers and Valuers; and
- A standard template, developed by the credit union is used for all valuers.

[9] This legislation prevents one spouse/civil partner from selling, mortgaging, leasing or transferring the family/shared home without the consent of the other spouse/civil partner

[10] Obtaining a gift waiver means that as donors are giving the member a gift, they have no interest or rights in the property and the gift is non-repayable.

Table 3

Legal Process and Legislative & Regulatory Requirements							
Credit Union	**Deficiencies in Supporting Documentation with regards to LTV & LTI requirements**	**No Fire Insurance Policy in Place**	**Property Valuation not Addressed to the Credit Union**	**No PII Cover held for Valuers**	**Property Valuation contained sufficient detail**	**Family Home Declaration not held where applicable**	**Gift Waiver not obtained**
1	X	X	X	X	X	X	X
2	X		X	X	X		
3	X						
4	X		X	X	X		
5	X			X		X	
6	X	X	X	X	X	X	X
7	X	X				X	X
8	X	X	X	X	X		X
9	X	X	X	X	X	X	X
10	X		X	X	X	X	
11							
12	X			X		X	X
13							
14	X	X	X	X	X	X	X
15						X	
16	X	X	X	X	X		
Total	13	7	9	11	9	9	7

7 Recommendations

7.1 Governance Practices for House Loans

The findings within Section 6 outline the key deficiencies identified during the thematic inspection. The findings demonstrated that credit union boards and management had not established effective credit risk management for house loans.

Recommendations on the Governance of House Loans;

- An informed, detailed business strategy to support the provision of house loans is essential in order to identify, assess, mitigate and monitor the risks associated with this lending. This should include a cost-benefit analysis to demonstrate the appropriateness of this product, which factors in the nature, scale and capabilities of the credit union. The board of directors should ensure that they have sufficient and detailed information to enable them make informed decisions related to the provision of these loans, as well as satisfying their legislative and regulatory obligations.

- The assessment and issuance of house loans should be in line with the approved house loan policy and supporting credit risk appetite of the credit union. The risk appetite should explicitly state the levels, types and limits of risk that the board is willing to accept in pursuit of its strategic objectives. The responsibility for both lies with the board of directors. Any exceptions to policy should be documented, explained and reported to management and the board of directors.

- A suitable asset/liability management policy is required in order to consider the funding implications of longer term lending for the credit union.

- We expect the credit unions risk management, compliance and internal audit functions to conduct regular reviews of house loans as appropriate. Such reviews should assess compliance with legislative requirements, internal policies, underwriting practices and also review performance with best practice, where possible.

- Credit unions proposing to offer house loans should utilise a suitable credit risk management information system that provides accurate data on the issuance and performance of house loans on a timely basis. This enables effective monitoring, management and reporting to credit union management teams.

7.2 Credit Underwriting Practices

Our findings demonstrated several instances of inadequate underwriting practices for house loans. The following are recommendations for credit unions in relation to underwriting practices for house loans.

Recommendations on Credit Underwriting of House Loans;

- Credit unions should have systems in place to ensure that house loan applications are subject to full affordability assessment to confirm the borrower's ability to repay the loan. This should include an evaluation of reasonable living expenses to support a prudent assessment on the applicant's affordability[11]

- We expect that in cases where house loan applications for loans demonstrate high DSR/DTI ratios, credit unions should, on an ongoing basis, carefully monitor the performance of these loans for any signs of distress. While DSR/DTI ratios provide a useful measure of applicant's indebtedness, the credit union needs to exercise prudence in relation to the level and thresholds associated with these ratios.

- Members' income should be verified with supporting documentation including P60s/payslips/salary certificates. The credit policy needs to be explicit and robust in this regard, and include the documentation required for self-employed members.

- In order to support the full assessment of applications, credit unions should stress-test the effect of interest rate changes on a members' overall repayment capacity. Interest rates may fluctuate over the term of the loan and the results and implications of this should be communicated to members in advance of granting the loan.

- Comprehensive documented rationales should support each loan file, clearly outlining the decision-making process when granting each house loan.

- Credit unions should ensure that they obtain and retain evidence of the balance of funds required complete the purchase of a property.

[11] The Insolvency Service of Ireland (ISI) provides guidance regarding reasonable living expenses https://www.isi.gov.ie/en/ISI/RLEs_Guidelines_July_2017.pdf/Files/RLEs_Guidelines_July_2017.pdf

7.3 Legislative & Regulatory Requirements and Legal Process

Our findings demonstrated several instances of inadequate compliance with legislative and regulatory requirements and legal processes for house loans. The following are recommendations for credit unions in this area.

Recommendations on Compliance with the Legislative and Regulatory Requirements and Legal Process for House Loans;

- Credit unions must maintain documentation to support the credit unions compliance with the 2015 Regulations regarding LTV & LTI requirements. This should include an independent valuation of the property containing adequate detail along with documentation supporting evidence of members' income.
- The credit union's interest must be noted on the members' fire insurance cover policy for the full reinstatement value and the cover updated annually by the member and proof of fire cover held.
- Credit unions should have detailed requirements for property valuations e.g. standard format, addressed to credit union, size and condition of property and reinstatement value, for property valuers when obtaining valuations to ensure there is consistency in the valuation process.
- Property valuations for house loans must be addressed to the credit union, be sufficiently detailed and in a standard format.
- Credit unions should obtain confirmation that there is up to date PII cover where they are relying on their professional advisors for any undertakings or reports.
- Where a member's application for a house loan is supported by gifts, there should be documentary evidence on the availability of such funds and a gift waiver obtained from the donor that the gift is non-repayable.
- Where applicable, credit unions should ensure that they obtain and retain evidence to show that the Family Home Declaration was held.
- Credit unions should satisfy themselves that adequate life assurance cover is held by the members before releasing the funds, that there is an assignment over the credit unions interest, if applicable, and that proof of life assurance cover is held.

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