

**INTERNAL AUDIT  
REPORT**

**CREDIT MANAGEMENT**

**Prepared:** JS Consultants

**Prepared for:** Audit Committee  
Jeannine Wilson, Chairperson

**Dates:** September 14 and 15, 2022

**Location:** Equity Credit Union Inc.

**CEO:** Tom Dimson

**Credit Manager:** Nancy Smith, Lending Operations and Business  
Development

**Internal Auditor:** Garry Jones

## **EXECUTIVE SUMMARY**

The following summarizes the observations and recommendations based on the on-site visit to review personal loans, residential mortgages, and LOC loan files.

During this on-site audit, I confirm there is an appropriate level of independence, and I am not under any undue influence or duress from staff or management.

### **Findings**

- Documentation on personal and residential mortgages was complete with adequate security taken. There were no deficiencies identified based on the review of personal, residential mortgages and line-of-credit loans.
- The credit risk management policy is being reviewed by the board annually.
- Debt service ratios, income verification and net worth statements were completed accurately for each borrower and in compliance with policy.
- Self employed earnings for borrowers are verified in accordance with policy.
- There were 6 exceptions to policy on separate accounts which dealt with debt service ratios. These accounts were approved by the CEO as exceptions and reported to the Board.
- There were no new commercial loans issued in 2022.
- There was one restricted party loan to a family member requiring board approval which complied with policy.
- Monthly reporting to the board is in compliance with the credit union's credit risk management policy.
- Based on the loan audit there were no high-risk loans identified that would represent potential loss.
- Details are provided in the loan schedule and notes accompanying them.

**Personal Loans, Residential Mortgages and Line-of-Credit**

**Scope**

1. Review of the credit management policy to ensure it is adequate and in compliance with credit granting practices.
2. Ensure the credit policy is being reviewed on an annual basis.
3. Debt ratio calculations were verified for accuracy as well and income verification.
4. Review a sample of 20 personal loans, residential mortgages and LOCs issued between January 1, 2022 to July 31, 2022.
5. Personal loans and mortgages were reviewed for proper documentation, due diligence, adequate security, proper disbursement of funds and officer approval.
6. The following sample selection was obtained and documented in the attached schedules:

<b>Loan Sample</b>	<b>Term Loans</b>	<b>Residential Mortgages</b>	<b>Merit-line</b>	<b>LOC</b>	<b>Commercial</b>	<b>Total</b>
<b>Total New Loans Issued</b>	\$995,716	\$88,708,267	\$3,840,000	\$821,000	\$0	\$94,364,983
<b>\$ value of loans selected</b>	\$50,000	\$9,923,000	\$920,000	\$620,000	\$0	\$11,513,000
<b>Dollar Percentage</b>	5%	11%	24%	76%	0%	12%

**Observations**

1. Personal loans and residential mortgage files were found to be well completed with no deficiencies as to documentation or security.

2. The credit management policy is being reviewed annually by board and management and is in compliance with the lending practices.
3. There were no new commercial loans during the period under review in 2022.
4. Debt service ratios, income verification and net worth statements were completed accurately for each borrower. The credit union is also including a narrative as to the reasoning for loan's approval.
5. Proper documentation is being obtained in the confirmation of the borrower's income including those who are self employed.
6. There were six exceptions on separate accounts related to debt service ratios exceeding the policy limit. In each case there were mitigating circumstances for their approval including positive credit history, net worth and security obtained. Exceptions to policy are being approved by the CEO and reported to the Board monthly.
7. There were no high-risk loans identified based on the review of personal loans and residential mortgages.
8. Refer to attached loan schedules and notes for details on each of the loans and mortgages reviewed.

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	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Account #</b>	201748.54	199801.52	198076.52	183185.65	206044.65
<b>Loan Types</b>	Term	Term	Term	Meritline	Meritline
<b>Issue Date</b>	8-Mar-22	28-Jun-22	14-Jul-22	25-Feb-22	5-Jan-22
<b>Total Loan Amount</b>	\$620,000	\$25,000	\$25,000	\$220,000	\$250,000
<b>Interest Rate</b>	4.50%	8.00%	6.50%	6.50%	6.50%
<b>Payment Amount</b>	Interest	\$505	\$265	Interest	Interest
<b>Payment Cycle</b>	Monthly	Monthly	Monthly	Monthly	Monthly
<b>Application Complete?</b>	Y	Y	Y	Y	Y
<b>Guarantor's Application?</b>	N/A	N/A	N/A	N/A	N/A
<b>Loan Agreement Complete?</b>	Y	Y	Y	Y	Y
<b>Statement Of Disclosure?</b>	Y	Y	Y	Y	Y
<b>Net Worth Completed?</b>	Y	Y	Y	Y	Y
<b>Net Worth?</b>	\$1,500,000	\$610,747	\$541,589	\$220,099	\$484,116
<b>Restricted Party Loan?</b>	N/A	Y	N/A	N/A	N/A
<b>Rel/Connected Party Loans Verified?</b>	Y	Y	Y	Y	Y
<b>Income - Employment Verification?</b>	Y	Y	Y	Y	Y
<b>Proper Security Obtained?</b>	Y	N/A	N/A	Y	Y
<b>Security Type?</b>	GIC Deposits	N/A	N/A	2nd Mtg	2nd Mtg.
<b>Confirmed Security Value?</b>	Y	N/A	N/A	Y	Y
<b>Security Value/Appraised Value?</b>	\$620,000	N/A	N/A	\$655,000	\$1,100,000
<b>Loan-To-Value Ratio</b>	Fully Secured	N/A	N/A	66.09%	55.93%
<b>Wage Assignment Obtained?</b>	Y	Y	Y	Y	Y
<b>Security Documents Properly Completed?</b>	Y	N/A	Y	Y	Y

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<b>Security Registered Properly?</b>	N/A	N/A	Y	Y	Y
<b>Insurance Endorsement?</b>	N/A	N/A	N/A	Y	Y
<b>GDS/TDS Ratio Completed?</b>	Y	Y	Y	Y	Y
<b>GDS/TDS Ratio?</b>	21 - 39%	19 -30%	13 - 20%	28 - 35%	41 - 41%
<b>Debt Ratios Within Policy?</b>	Y	Y	Y	Y	N
<b>Credit Bureau Obtained?</b>	Y	Y	Y	Y	Y
<b>Fico Score?</b>	867 - 871	695 - 812	648 - 631 - 855 855	712 - 728	745
<b>Lending Limits in Compliance?</b>	Y	Y	Y	Y	Y
<b>Insurance Taken or Waiver Signed?</b>	Y	Y	Y	Y	Y
<b>Loan Properly Approved/Disbursed/Reviewed?</b>	Y	Y	Y	Y	Y
<b>Exceptions To Policy Approved?</b>	N/A	N/A	N/A	N/A	Y
<b>Loan Pricing Appropriate?</b>	Y	Y	Y	Y	Y
<b>Acceptable Risk</b>	Y	Y	Y	Y	Y

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	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>Account #</b>	206333.65	207687.65	206747.65	153303.61	206416.61
<b>Loan Types</b>	Meritline	Meritline	Meritline	Residential Mortgage	Residential Mortgage
<b>Issue Date</b>	11-Jan-22	25-Apr-22	6-Sep-22	28-Apr-22	28-Jan-22
<b>Total Loan Amount</b>	\$100,000	\$200,000	\$150,000	\$926,000	\$1,000,000
<b>Interest Rate</b>	6.50%	5.50%	7.00%	4.20%	3.95%
<b>Payment Amount</b>	Interest	Interest	Interest	\$4,509	\$4,726
<b>Payment cycle</b>	Monthly	Monthly	Monthly	Monthly	Monthly
<b>Application Complete?</b>	Y	Y	Y	Y	Y
<b>Guarantor's Application?</b>	N/A	N/A	N/A	N/A	N/A
<b>Loan Agreement Complete?</b>	Y	Y	Y	Y	Y
<b>Statement of Disclosure?</b>	Y	Y	Y	Y	Y
<b>Net Worth Completed?</b>	Y	Y	Y	Y	Y
<b>Net Worth?</b>	\$878,431	\$365,000	\$522,558	\$497,743	\$261,693
<b>Restricted Party Loan?</b>	N/A	N/A	N/A	N/A	N/A
<b>Rel/Connected Party Loans Verified?</b>	Y	Y	Y	Y	Y
<b>Income - Employment Verification?</b>	Y	Y	Y	Y	Y
<b>Proper Security Obtained?</b>	Y	Y	Y	Y	Y
<b>Security Type?</b>	1st Mtg	2nd Mtg.	2nd Mtg.	1st Mtg.	1st Mtg.
<b>Confirmed Security Value?</b>	Y	Y	Y	Y	Y
<b>Security Value/Appraised Value?</b>	\$875,000	\$1,137,000	\$1,260,000	\$1,600,000	\$1,260,000
<b>Loan-to-Value Ratio</b>	11.43%	67.90%	58.53%	57.88%	79.37%
<b>Wage Assignment Obtained?</b>	Y	Y	Y	Y	Y

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<b>Security Documents Properly Completed?</b>	Y	Y	Y	Y	Y
<b>Security Registered Properly?</b>	Y	Y	Y	Y	Y
<b>Insurance Endorsement?</b>	Y	Y	Y	Y	Y
<b>GDS/TDS Ratio Completed?</b>	Y	Y	Y	Y	Y
<b>GDS/TDS Ratio?</b>	21 - 30%	47 - 47%	38 -38%	13 - 29%	36 -38%
<b>Debt Ratios within Policy?</b>	Y	N	N	Y	N
<b>Credit Bureau Obtained?</b>	Y	Y	Y	Y	Y
<b>FICO Score?</b>	781 -710	880 -832	755	755 - 654	634 - 829
<b>Lending Limits in Compliance?</b>	Y	Y	Y	Y	Y
<b>Insurance taken or Waiver Signed?</b>	Y	Y	Y	Y	Y
<b>Loan Properly Approved/Disbursed/Reviewed?</b>	Y	Y	Y	Y	Y
<b>Exceptions to Policy Approved?</b>	N/A	Y	Y	N/A	Y
<b>Loan Pricing Appropriate?</b>	Y	Y	Y	Y	Y
<b>Acceptable Risk</b>	Y	Y	Y	Y	Y



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	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>
<b>Account #</b>	201748.61	206689.61	207042.61	207315.61	209485.61
<b>Loan Types</b>	Residential Mortgage	Residential Mortgage	Residential Mortgage	Residential Mortgage	Residential Mortgage
<b>Issue Date</b>	8-Mar-22	25-Feb-22	24-Mar-22	8-Apr-22	8-Feb-22
<b>Total Loan Amount</b>	\$500,000	\$840,000	\$500,000	\$1,020,000	\$1,025,000
<b>Interest Rate</b>	P + 1.25%	3.85%	3.99%	P + .25	3.99%
<b>Payment Amount</b>	\$2,594	\$3,923	\$2,375	\$4,707	\$4,868
<b>Payment cycle</b>	Monthly	Monthly	Monthly	Monthly	Monthly
<b>Application Complete?</b>	Y	Y	Y	Y	Y
<b>Guarantor's Application?</b>	N/A	N/A	N/A	N/A	N/A
<b>Loan Agreement Complete?</b>	Y	Y	Y	Y	Y
<b>Statement of Disclosure?</b>	Y	Y	Y	Y	Y
<b>Net Worth Completed?</b>	Y	Y	Y	Y	Y
<b>Net Worth?</b>	\$1,501,000	\$302,547	\$704,637	\$377,778	\$347,469
<b>Restricted Party Loan?</b>	N/A	N/A	N/A	N/A	N/A
<b>Rel/Connected Party Loans Verified?</b>	Y	Y	Y	Y	Y
<b>Income - Employment Verification?</b>	Y	Y	Y	Y	Y
<b>Proper Security Obtained?</b>	Y	Y	Y	Y	Y
<b>Security Type?</b>	1st Mtg	1st Mtg.	1st Mtg.	1st Mtg.	1st Mtg.
<b>Confirmed Security Value?</b>	Y	Y	Y	Y	Y
<b>Security Value/Appraised Value?</b>	\$1,101,000	\$1,247,000	\$1,205,000	\$1,280,000	\$1,391,000
<b>Loan-to-Value Ratio</b>	45.41%	67.36%	41.49%	79.69%	73.69%
<b>Wage Assignment Obtained?</b>	Y	Y	Y	Y	Y

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<b>Security Documents Properly Completed?</b>	Y	Y	Y	Y	Y
<b>Security Registered Properly?</b>	Y	Y	Y	Y	Y
<b>Insurance Endorsement?</b>	Y	Y	Y	Y	Y
<b>GDS/TDS Ratio Completed?</b>	Y	Y	Y	Y	Y
<b>GDS/TDS Ratio?</b>	21 - 39%	23 - 32%	34 - 35%	25 - 31%	34 - 37%
<b>Debt Ratios within Policy?</b>	Y	Y	N	Y	N
<b>Credit Bureau Obtained?</b>	Y	Y	Y	Y	N
<b>FICO Score?</b>	867 - 871	775 -838	839 - 740	667 - 645	742
<b>Lending Limits in Compliance?</b>	Y	Y	Y	Y	Y
<b>Insurance taken or Waiver Signed?</b>	Y	Y	Y	Y	Y
<b>Loan Properly Approved/Disbursed/Reviewed?</b>	Y	Y	Y	Y	Y
<b>Exceptions to Policy Approved?</b>	N/A	N/A	Y	N/A	Y
<b>Loan Pricing Appropriate?</b>	Y	Y	Y	Y	Y
<b>Acceptable Risk</b>	Y	Y	Y	Y	Y

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	<b>16</b>	<b>17</b>	<b>19</b>	<b>20</b>
<b>Account #</b>	207612.61	207919.61	196559.62	209485.61
<b>Loan Types</b>	Residential Mortgage	Residential Mortgage	Residential Mortgage	Residential Mortgage
<b>Issue Date</b>	21-Apr-22	2-May-22	13-Jun-22	23-Jun-22
<b>Total Loan Amount</b>	\$1,092,000	\$1,270,000	\$250,000	\$1,500,000
<b>Interest Rate</b>	4.25%	4.20%	5.85%	4.20%
<b>Payment Amount</b>	\$5,348	\$6,184	\$1,464	\$7,304
<b>Payment cycle</b>	Monthly	Monthly	Monthly	Monthly
<b>Application Complete?</b>	Y	Y	Y	Y
<b>Guarantor's Application?</b>	N/A	N/A	N/A	N/A
<b>Loan Agreement Complete?</b>	Y	Y	Y	Y
<b>Statement of Disclosure?</b>	Y	Y	Y	Y
<b>Net Worth Completed?</b>	Y	Y	Y	Y
<b>Net Worth?</b>	\$300,451	\$367,479	\$429,359	\$713,615
<b>Restricted Party Loan?</b>	N/A	N/A	N/A	N/A
<b>Rel/Connected Party Loans Verified?</b>	Y	Y	Y	Y
<b>Income - Employment Verification?</b>	Y	Y	Y	Y
<b>Proper Security Obtained?</b>	Y	Y	Y	Y
<b>Security Type?</b>	1st Mtg.	1st Mtg.	2nd Mtg.	1st Mtg.
<b>Confirmed Security Value?</b>	Y	Y	Y	Y
<b>Security Value/Appraised Value?</b>	\$1,365,000	\$1,600,000	\$981,000	\$2,500,000
<b>Loan-to-Value Ratio</b>	80.00%	79.38%	78.80%	30.92%
<b>Wage Assignment Obtained?</b>	Y	Y	Y	Y

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<b>Security Documents Properly Completed?</b>	Y	Y	Y	Y
<b>Security Registered Properly?</b>	Y	Y	Y	Y
<b>Insurance Endorsement?</b>	Y	Y	Y	Y
<b>GDS/TDS Ratio Completed?</b>	Y	Y	Y	Y
<b>GDS/TDS Ratio?</b>	28 - 29%	32 -34%	28 -33%	32 - 35%
<b>Debt Ratios within Policy?</b>	Y	Y	Y	Y
<b>Credit Bureau Obtained?</b>	Y	Y	Y	Y
<b>FICO Score?</b>	828 - 764	673 - 773	673 - 683 - 551	704 - 696
<b>Lending Limits in Compliance?</b>	Y	Y	Y	Y
<b>Insurance taken or Waiver Signed?</b>	Y	Y	Y	Y
<b>Loan Properly Approved/Disbursed/Reviewed?</b>	Y	Y	Y	Y
<b>Exceptions to Policy Approved?</b>	N/A	N/A	N/A	N/A
<b>Loan Pricing Appropriate?</b>	Y	Y	Y	Y
<b>Acceptable Risk</b>	Y	Y	Y	Y

**Notes to Loan Schedules**

199801.52 – This is a restricted party loan to a relative of a board member which contained board approval. Borrowers have good to excellent credit.

198076.52 - A term loan treated as an unsecured personal loan. A collateral mortgage for the \$25,000 was placed on the property in the event of any future default. This practice complies with policy.

207687.65– This is a Meritline secured by a 1<sup>st</sup> mortgage. The GDS/TDS ratios are calculated to exceed the policy limit or 47% versus 32% and 40%. The application further indicated the borrower has good net worth, low LTV ratio and excellent credit history. Another example included a 2<sup>nd</sup> mortgage to account #206044.65 with a 41% GDS/TDS ratio and where the credit union holds the 1<sup>st</sup> mortgage charge on the property. In all cases, exceptions were approved by the CEO.

207042.61 Residential mortgage includes up-to-date lease agreement on portion of property being rented. The GDS ratio also exceeds the policy limit of 32% and was approved according to policy by the CEO.

207315.61 – This is a residential mortgage for \$1,050,000. Both borrowers have reduced their credit scores (FICO) because of numerous credit enquiries which indicated they were shopping various lenders for credit. Their credit history was R1 based on past payment history. The credit union has good security in a 1<sup>st</sup> mortgage.

196559.62 – This is a residential 2<sup>nd</sup> mortgage for \$250,000. All three borrowers on this mortgage have high credit utilization rates resulting in lowering their FICO scores. The one borrower with the 551 score had a bad credit with Toyota Canada on a vehicle lease. The history for this debt remains an I2 score. The borrowers have sufficient income to service the debt with good equity. The credit union also holds a 1st mortgage on the property valued at \$523,000.

**Garry Jones, JS Consultants**



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A review has been completed indicating the internal audit meets generally accepted internal audit standards.

**Reviewed by David McKeand, CA**



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