Guideline

Delegated Lending Authority

Date: March 21, 2023

Distribution: B.C. Credit Unions

INTRODUCTION

The Delegated Lending Authority Guideline outlines expectations for B.C. credit unions regarding the application of delegated lending authority (“DLA”)[1] to reduce the risk of conflicts of interest and minimize errors and fraud related to loan sales and approvals.

BACKGROUND INFORMATION

BC Financial Services Authority (“BCFSA”) has observed weak controls around DLA, including lack of clarity around accountability for DLA and inappropriate segregation of duties, which could potentially lead to conflicts of interest. Many credit unions have a structure whereby their loan origination staff also possess a DLA as part of their lending operations. Loan origination staff generate loan assets and may also approve these assets. This may result in pressure on loan origination staff to approve credit applications, undermining credit risk management practices. Such a structure potentially creates an inherent conflict of interest when the performance of a DLA holder is directly or indirectly linked to growth targets.

REGULATORY EXPECTATIONS

Governance and Accountability

Credit unions should have clearly defined accountability for DLA delegation and sub-delegation. The Board of Directors (“the Board”) or the Board’s Investment and Lending Committee retains ultimate lending authority, in accordance with the credit union’s credit authority policy. The Board may delegate the DLA to the Chief Risk Officer (“CRO”) or its equivalent for a respective credit union, and the CRO or equivalent may then further sub-delegate DLA for operational purposes.

[1] Delegated lending authority refers to an authority delegated by a credit union’s Board of Directors or the Board’s Investment and Lending Committee, which grants an individual the ability to lend funds on behalf of the credit union.

BC Financial Services Authority
600-750 West Pender Street
Vancouver, B.C. V6C 2T8
T 866 206 3030
F 866 660 3365
You’re Protected
bcfsa.ca

BCFSA expects the CRO or equivalent to hold accountability for ensuring the proper segregation of duties and monitoring the credit union's compliance with the DLA.

Placing accountability for sub-delegation with the CRO or equivalent is intended to help shape corporate behaviour and aid in strengthening controls for preventing abuse or breach of lending authority.

Segregation of Duties

Best practices for DLA should ensure that staff involved in front line loan origination should be independent of credit approval and oversight functions to avoid any potential conflicts of interest. This includes DLA for staff at the executive level. Under best practice, DLA holders report to an independent credit risk function and have performance metrics that are tied to risk management.

Credit unions that do not have an independent credit risk function should consider mitigating controls that are commensurate to their size and complexity.

If a credit union finds it necessary to delegate lending authority to staff involved in front line loan origination roles for operational needs, there should be adequate safeguards to manage conflicts of interest.

Examples of safeguards could include, but are not limited to:

- An independent review of credit granted;
- Limiting the DLA to incidental credit increases for existing members;
- Limiting the DLA by dollar amount thresholds; and
- Limiting the DLA to low-risk borrowers.

Retail lending with auto-adjudication may be considered as a form of independent approval.

Monitoring and Reporting

Credit unions should monitor DLA by conducting regular reviews to identify breaches of DLA limits. Credit unions should also monitor DLA to ensure that DLA holders have the appropriate level of knowledge and expertise commensurate with the loan activity for which they are responsible. Reporting to the Board on DLA breaches and the effectiveness of DLA controls in place is a best practice.