
Glossary

Act, the - The Ontario *Credit Unions and Caisses Populaires Act, 1994*.

Administration - A depositor protection program prescribed in section 294 of the Act. The objective of the program is to enable the deposit insurer to assume control of a credit union where institutional failure is imminent, in order to protect depositors and minimizing the risk of any future loss to DICO's deposit insurance reserve fund.

Aged receivables - Monies owing to a company which are "aged" by the number of days outstanding, i.e., 30, 60, 90, and 120 days and over. Depending upon the credit worthiness of the debtor, receivables are usually valued based on the aging. For example, receivables outstanding up to 90 days may be valued from 50 per cent to 75 per cent, 90 to 120 days from 25 per cent to 50 per cent and over 120 days 0 per cent.

Balloon payments - Contractual lump sum payments made on an outstanding debt, usually at the end of the term.

Bankers Acceptance Notes - Commercial debt that has been guaranteed by the corporate borrowers' bank, issued into the money market, on a discount basis, maturing at par value, with terms of 30 days to 1 year. Sellable early through the secondary market.

Basis point - One one hundredth of a per cent, i.e., 100 basis points is one per cent.

Bond rating service - An external service that provides ratings on most government bonds, corporate bonds, commercial paper, and financial institutions by measuring the financial instrument's quality and return. Two companies that offer this type of service are the Dominion Bond Rating Service and Canadian Bond Rating Service.

Bridge Loans - A loan of a temporary nature, usually three months or less, that is repaid from a distinct source, for example the sale of a house. The term "bridge loan" is most commonly used to mean temporary funding to purchase a home that is repaid from the sale of another which closes a short period of time later. The loan "bridges" the time between the purchase and sale of the two homes.

By-law - A regulation governing the objects and powers of an organization, the authority of its officers and the conditions and privileges of its members.

By-laws No. 3, 5 and 6 - see "DICO By-laws"

Caisse populaire - The French language equivalent of a credit union. In Ontario, caisses populaires are incorporated under the same Act as credit unions and are subject to the same regulations. Caisses populaires conduct business primarily in French. For purposes of this Handbook, credit union is defined to mean a credit union or caisse populaire.

Callable deposits - Deposits that may be "called" or withdrawn upon demand by the depositor subject to limitations specified in the deposit contract. A callable deposit may or may not have an early redemption penalty, for example, a reduced interest rate.

Capital - Capital represents the difference in value between a credit union's assets (such as its loans and fixed assets), and its liabilities (such as deposits by its members and debts owed to its creditors). Capital fills this gap, providing a buffer against losses, and provides room for growth.

CBRS - Canadian Bond Rating Service. A company that provides ratings on most government bonds, corporate bonds, commercial paper, and financial institutions by measuring the financial instrument's quality and return.

Chattel - Personal property such as furniture, clothing or a car.

Chattel security - Personal property such as furniture, clothing or a car that has been pledged as security.

Cheque kiting - Fraudulent activity whereby a cheque is deposited to an account which is drawn on an account which has non-sufficient funds.

Commercial paper - Notes with maturities ranging from 2 to 270 days, issued by corporations and other borrowers to short-term investors.

Connected party loans - A loan made to two members who are considered to be connected, pursuant to section 73 of Regulation 76/95.

Connected parties - Defined in section 73 of Regulation 76/95.

Consolidation Loan - A loan that is written to combine several debts into one. For example, a consolidation loan might be granted to pay off credit card bills, a line of credit, and a loan at another institution. Generally, a consolidation loan results in a lower effective interest rate and reduced monthly payments for the borrower.

Core capital - Tier 1 capital as defined in FSCO's *Capital Adequacy Guideline*. Generally, core capital is characterized by relative permanence and freedom from mandatory fixed charges. Examples of tier 1 capital include membership shares and retained earnings.

Credit Administration Diary - an information system which keeps track of dates which are significant in the credit monitoring process (e.g. loan renewal and review dates, fire insurance expiry dates, etc.). These systems can be quite sophisticated (computerized), or can be simple (card catalogue), depending on the needs and size of the loan portfolio.

Credit quality - Refers to the level of credit risk of a loan or portfolio of loans.

Credit risk - The risk that promised cash flows on a loan, mortgage or other financial instrument may not be paid in full.

Credit Union - A co-operative financial institution, that provides financial services exclusively to its membership. For purposes of this Handbook, credit union is defined to mean a credit union or caisse populaire.

Credit Union Institute of Canada (CUIC) - Provides professional development programs in conjunction with Dalhousie University leading to accreditation. Consists of existing college/university courses, plus credit union specific courses at a university level.

Credit Union Managers Association (CUMA) - An association of credit union managers formed to promote excellence in credit union management through training, information sharing and conferences. Hosts biannual forums on management skills and relevant issues.

Credit Unions and Caisses Populaires Act, 1994 - The legislation enacted by provincial parliament that applies to credit unions and caisses populaires.

DBRS - Dominion Bond Rating Service. A company that provides ratings on most government bonds, corporate bonds, commercial paper, and financial institutions by measuring the financial instrument's quality and return.

Deposit Insurance Corporation of Ontario (DICO) - DICO is an "Operational Enterprise" Agency of the Province of Ontario without share capital established under the provisions of the Credit Unions and Caisses Populaires Act. It is responsible to the Ontario government for protecting the deposits of members of the credit union and caisse populaire sector. DICO provides deposit insurance for all Ontario credit unions and caisses populaires.

Derivative instrument - A financial contract whose value fluctuates in relation to the performance of an underlying asset or market index, such as an interest rate swap. Derivatives may be used by credit unions for hedging purposes only.

Derivative report - see "Management letter"

Derivatives - see "Derivative instrument"

DICO - Deposit Insurance Corporation of Ontario

DICO By-law No. 3 - A by-law of the Deposit Insurance Corporation of Ontario relating generally to its deposit insurance coverage.

DICO By-law No. 5 - A by-law of the Deposit Insurance Corporation of Ontario relating to the minimum standards of Sound Business and Financial Practices prescribed for credit unions.

DICO By-law No. 6 - A by-law of the Deposit Insurance Corporation of Ontario relating to the application of allowances for impaired loans.

Disaster recover plan - A contingency plan for the recovery of data processing facilities, and for the protection of financial data caused by short, medium and long-term system interruptions.

EFT/POS - Electronic Funds Transfer/Point of Sale. An electronic debit system that enables members to pay for goods purchased through merchants which offer this payment option. Members accounts are debited automatically and the merchant's account is credited under this arrangement.

Fair Value of Security (FVS) - Management's reasonable estimate of how much cash the credit union can realize from the disposal of security underlying a loan, after paying real estate or legal/court fees, taxes and holding costs for management and preservation of property.

Financial derivative instrument - see "Derivative instrument"

Financial Services Commission of Ontario - FSCO is a provincial government commission. It regulates financial institutions that are provincially incorporated, such as credit unions. FSCO issues lending licences and approves incorporations, amalgamations and by-law amendments. The head of the Financial Services Commission of Ontario is the Superintendent of Financial Services. The head of the Credit Unions Branch of FSCO is the Director who exercises his power under the supervision of the Superintendent.

Formally Restructured Loan - A formally restructured loan is a loan rewrite where a portion of the principal or interest is written off in exchange for the borrower's full co-operation to repay the residual debt without further collection efforts.

FSCO - Financial Services Commission of Ontario

Gap - The extent of interest rate mismatch calculated by subtracting, for each time bucket, the volume of liabilities subject to repricing from the volume of assets subject to repricing.

Gap ratio - Defined as the ratio of net assets (or liabilities) within a particular time bucket divided by the greater of their two amounts.

Gap schedule - The most common method of measuring interest rate risk. In a gap schedule, all of the institution's balance sheet items (both on and off) are placed into a series of time buckets, which correspond to the amount of time remaining before the interest rates on that item are re-priced.

General security agreement (GSA) - An agreement which allows a lender to obtain a security interest in the non real estate assets of a borrower.

Hedging - engaging in financial transactions to reduce risk.

Hypothecation - An assignment of negotiable securities or other financial instruments, such as deposits or receivable instruments, to secure a loan.

Impaired loan - A loan for which, as a result of a deterioration in credit quality, there is no reasonable assurance of the timely and full collection of principal and interest. Under DICO by-law No. 6, such loans should have their carrying value reduced.

Insolvent/Insolvency - Unable to meet or discharge a financial obligation.

Interest rate swaps - A type of financial derivative. A contract between two parties; one party agrees to pay a fixed rate of interest for a specific term in exchange for the other party paying a variable or floating rate of interest.

IRR - interest rate risk - The risk that a change in interest rates (both higher or lower) will affect a credit union's financial margin.

Key man life insurance - A life insurance policy taken out on an individual considered to be critical to the continued success of the business. The policy is then usually assigned to the lender to ensure payout of any borrowings in the event of the sudden demise of the person covered by the policy.

Large deposits - Defined as a deposit of such a size that its sudden withdrawal might cause liquidity problems. When determining what qualifies as a large deposit, management should consider the total amount of deposits that belong to an individual or group of connected persons.

Leagues - Leagues are provincially incorporated institutions that act as central bankers and trade associations for their members. They also provide members with access to liquidity pools, training, consulting and other services. The three leagues in Ontario are Credit Union Central of Ontario (Ontario Central), L'Alliance des caisses populaires de l'Ontario (L'Alliance), and La Fédération des caisses populaires de l'Ontario (La Fédération).

Lending licence - A credit union's lending powers are formally defined by its lending licence, which it obtains either by designation under the Act, or through an application to FSCO.

Liquidity - Defined as the amount of liquid assets available to service the cashflow needs of the day to day operation of the credit union. Sections 16 to 18 of Ontario Regulation 76/95 detail legislated minimum liquidity requirements.

Loan co-maker - A person who signs the promissory note with the principal borrower, thereby assuming responsibility for the loan. In the case of a co-maker, the individual also receives some benefit from the loan.

Loan Rewrites - A loan rewrite involves changing any of several conditions of the loan, such as the maturity date, the amount of the monthly payments, or the security taken. For example, the credit union may wish to reduce the size of monthly payments to accommodate a permanent decline in the borrower's cashflow (e.g. borrower has taken a part-time job at a lower salary), thereby lengthening the loan's repayment period.

Management letter - A letter prepared by a credit union's auditor, written to the board, general manager, chief financial officer and audit committee of a credit union, acknowledging that section 172 of the Act had been considered in the course of the annual audit, and indicating whether there are any questionable transactions pursuant to that section. This letter is also known as a derivative report or as a section 172 letter.

Matching - "Matching" refers to the process of structuring the balance sheet so that maturities of interest rate sensitive assets correspond closely to the maturities of interest rate sensitive liabilities. If the balance sheet is well-matched, a change in interest rates will have little or no impact on margin, because assets and liabilities re-price at the same time.

Maturity calendar - A maturity calendar is a daily diary which contains information regarding any securities that may be maturing, the rate at which they were purchased, the principal amount of the security, and where they were purchased.

Membership shares - Equity interests in a credit union held as a condition of membership. Membership shares provide the shareholder with the right to receive dividends on those shares when declared by the board, the right to receive the remaining property of the credit union upon dissolution, and the right to vote at general meetings and special meetings of the membership.

Ministry of Finance - The Ministry of Finance regulates Ontario's credit unions. By developing legislation, (i.e., regulations, directives, and amendments to the Act) the Ministry ensures that both the public and the industry's interests are protected.

MIS - management information system - A system of reporting to the board and management that provides quantitative and qualitative information about the credit union.

MISAR - see "Member Institution Self-Assessment Report"

Money laundering - defined as a criminal process whereby the existence of an illegal source, or illegal application of income is concealed by the re-circulation (laundering) of that income through legal deposit taking institutions. Money laundering makes illegal cash appear legitimate. Under Canada's *Criminal Code*, it is a criminal offence for anyone, including credit union staff, to knowingly assist in laundering the proceeds of crime.

Non-callable deposits - A deposit that may not be withdrawn by the depositor until maturity.

Non-membership shares - Equity interests in a credit union that members hold not as a condition of membership, but for other purposes; such as for investment purposes.

OHOSP's - Ontario Home Ownership Savings Plans. A registered savings plan that encourages members to save for their first home by providing a tax credit for funds deposited in the OHOSP. The plan is subject to certain limitations as to the amount that may be deposited annually, the total amount that may be deposited, and the life of the plan. Funds may be withdrawn tax free if used to purchase a home. At times, the Ontario Government may, on a short-term program basis, detail other purposes for which the funds may be used, for example, home improvements.

Personal Property Security Act - Governs the taking of security against personal property in Ontario. The Act also establishes a registry whereby priorities in rights to security are established and notice to third parties of security interests in a debtors assets is given.

Pledging - An assignment of negotiable securities or other financial instruments, such as deposits or receivable instruments, to secure a loan.

Policies - A set of documented prudent strategies or philosophies approved by the board of directors, adopted and implemented by management of a credit union, that promote sound business and financial practices. Policies put limits on the amount of business risk a credit union can assume. They also summarize the organization's rationale for each of its key activities.

Procedures - A set of documented courses of action which support the policies of the credit union. Procedures are specific and detailed and differ from policies which are broad and conceptual in nature.

Receiver - A receiver is a firm or person appointed to liquidate a business or parts of a business as a going concern in order to satisfy the borrower's debts.

Receiver-manager - See "receiver"

Regulations - The regulations proclaimed under the Ontario *Credit Unions and Caisses Populaires Act, 1994*.

Restricted party loans - A loan granted to a restricted party. Restricted parties, which, include all directors, officers and committee members are defined in sections 81 to 87 of Regulation 76/95.

Retained Earnings - Accumulated earnings from current and previous years.

Reverse Mortgage Line of Credit - A unique type of credit facility which involves the conveyance of an interest in land (real property) as security for debt, in particular a line of credit permitting demand drawings. A reverse mortgage differs principally from a conventional mortgage, in that there are no loan payments until maturity, at which time the original principal advanced plus all compounded interest must be repaid.

Right of set-off - A legal right of a financial institution to set-off the balances of mutual debts between itself and a debtor, without prior notice. The right of set-off cannot legally be exercised on a member's RRSP deposits, deposits held in trust for a designated beneficiary or deposits held jointly with another member.

RRIF's - Registered Retirement Income Funds

RRSP's - Registered Retirement Savings Plans

Section 172 letter - see "Management letter"

Liquidity pools - A fund established for the purpose of enabling the pool's members to obtain sufficient cash or the equivalent to meet their commitments as they arise and to do so in a timely manner and at a reasonable cost.

Short term debt - Debt or investments with a maturity of less than three years.

Skip tracing - The process of locating a borrower that has failed to make payments, moved and left their employment, and who has left no forwarding address.

Stabilization fund - A fund that is established and maintained to provide liquidity and stability for the benefit of its member institutions.

Subordinated debt - Debt that is legally subordinated to the rights of depositors and other creditors of the credit union.

Superintendent of Financial Services - the head of the Financial Services Commission of Ontario.

Supervision - A depositor protection program prescribed in section 285 of the Act, and managed by the Deposit Insurance Corporation of Ontario. The purpose of the program is to provide mandatory assistance to financial institutions that are operating at unacceptable levels of risk. DICO works closely with the board of a credit union to correct the specific operational problems which necessitate intervention. DICO, in its role as a stabilization authority, may request FSCO to order a credit union into DICO's Supervision Program.

Supplemental lines of credit - Loans extended by a league or chartered bank to a credit union that provide a revolving sum of money up to a maximum limit.

Supplementary capital - Tier 2 capital as defined in FSCO's *Capital Adequacy Guideline*. A capital instrument will qualify as tier 2 if it has an element of permanence and characteristics of both debt and equity. Examples of tier 2 capital include the redeemable portion of non-membership shares and subordinated debt.

T-Bill Accounts - A type of savings account that offers superior rates of interest on larger balances (usually \$10,000 or more) and may offer chequing privileges.

The Act - The Ontario *Credit Unions and Caisses Populaires Act, 1994*.

Time bucket - A period of time, for example, 30 days, during which certain assets and liabilities may mature and the interest rate on them is then repriced. Time buckets are used for GAP analysis and interest rate risk measurement.

Tort - An injury to one person for which the person who caused the injury is legally responsible.

Variable cost analysis - Profit contribution analysis that quantifies the net dollar benefit of a product/service based on its revenues versus its variable cost.

Variance order - An order given by the Superintendent allowing a credit union to continue operations while failing to comply with a specific requirement of the Act or Regulations. A variance order will usually be subject to restrictive terms, such as prohibiting the payment of cash dividends to members, or requiring the credit union to raise additional capital.

Zero coupon bond - A bond sold at a discount from its face value that pays no interest until maturity, when it is redeemable for its face value.