



WORRIED ABOUT THE **IMPACT** OF CONCENTRATION RISK?

CU*ANSWERS AND AUDIT LINK CAN HELP!

PROVIDING A SOLUTION

*CU*Answers offers a full consulting engagement through Audit Link to provide concentration risk assessments for credit unions. CU*Answers has developed a template including the checklists, policies, process, and mathematics required to perform this assessment. Contact Audit Link to schedule your consultation.*

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CU*ANSWERS
A CREDIT UNION SERVICE ORGANIZATION

**Audit
Link**

PHASE ONE

INITIAL ENGAGEMENT

The upfront analysis of portfolio segmentation, data identification, redesign of ALLL calculations, determination of model variables, and economic drivers will be determined. Depending upon the complexity of the credit unions portfolio this phase should take between 8 and 16 hours.

PHASE TWO

DATA GATHERING

During this phase the loans and investments will be classified in accordance with their specific segments. In the majority of cases security codes, loan categories, and purpose codes will be used and sorted through the "Select Loan Trial Balance" option. The best practice recommendation will be to utilize security code while taking into consideration call report requirements. The investments will be classified according to their "investment type" and sorted through the "Investment Trial Balance" option. Participations and guarantees will need to be determined and the manner in which these will be netted out for analysis purposes.

PHASE THREE

CHANGING SECURITY CODES

Depending upon the amount loans or investments it may be economically feasible to have our programming staff bid a special job request to change programmatically. In some cases this will not be required but it is expected that the majority of cases this will be required. A template has already been built to facilitate this phase.

PHASE FOUR

RISK TO CAPITAL DETERMINATION

The fourth phase will be the actual testing of the segments against the model and determining the risk to capital, recommended board approved limits, and development of the final report. During this phase the establishment of growth goals in each segment will also be necessary as it relates to the maximum limits. Also, for segments which have potential loss exposures to capital of 30% or greater monitoring and loss mitigation rules will be determined.

PHASE FIVE

ON-GOING TESTING

In accordance with the concentration guidelines segments approaching 20% potential loss exposure will be tested on a quarterly basis or on a frequency the credit union determines is appropriate. Dependent upon the credit unions risk tolerance or expected movement in the economic indexes utilized to augment historical loss ratios management may also require testing of other segments which do not meet the minimum thresholds.

COSTS

PROPOSED PRICING

Consulting Contact including phases 1,2,4:

The consulting contact will be billed at a flat rate of up to \$3,000 which includes two full days on site. In the event on-site required/requested a rate of \$1,500 a day will be charged. Each additional day will be billed at \$1,250. This will include phases 1, 2, and 4 as listed above. Phase 4 will generally be completed via web conference as the requirements for updating the data may prohibit completing the tests end to end.

Programming change requests

In the event programming/project management/QC changes are required a separate special job request will be bid at the standard rate of \$100/hr.

On-going tests

Quarterly runs and on-going consulting will be billed at \$500/run which also includes the development of the reports and a one hour phone conference to review the results of the run. In the event the credit union wishes the report to be presented in person and additional \$250 plus travel will also be charged.