PREVIEW
CU*BASE CONCENTRATION RISK

CU*BASE TOOLS SCHEDULED FOR THE NEXT RELEASE

On Demand | On the Fly | Anytime

HOW CU*BASE WILL HELP YOU MANAGE CONCENTRATION RISK

The NCUA Letter to Credit Unions 10-CU-03 added a new market risk for credit unions to manage. Concentration risk management requires a credit union to examine whether the amount of loans in a particular segment or to a particular consumer presents safety and soundness risk to the institution.

*CU*Answers is in the forefront of developing tools to assist credit unions of any size in managing risk. In the next release, CU*BASE will offer a robust suite of tools that are easy to use yet provide powerful "at a glance" review of an institution's concentration risk.*

*With these CU*BASE tools, credit unions will be able to prepare for examinations, prepare strategic plans, and gather insight into risk at a level not seen before in the industry. CU*Answers is committed to help our credit unions audit and defend their lending practices and at the same time provide credit unions with information that can help prevent serious losses to the institution.*

CONCENTRATION RISK MANAGEMENT

How does the NCUA look at concentration risk?

Based on the *NCUA Letter to Credit Unions 10-CU-03*, examiners have five primary tasks they expect a credit union to manage:

1. Identify the segments in the portfolio that are subject to similar economic shocks, such as unemployment, as well as single named borrowers or similar borrowers who would present a risk to the safety and soundness of the institution upon default

2. Test the resiliency of the portfolio

3. Monitor the performance of the portfolio to ensure credit union readiness

4. Set limits on the growth of the portfolio that can be justified by portfolio performance

5. Take action once risk limits are reached or portfolio performance threatens the safety and soundness of the credit union

The NCUA established that the board of directors is responsible for managing concentration risk.

WHAT SHOULD A CREDIT UNION DO?

At minimum, a credit union should make sure to regularly report to the board the following findings:

1. Report on the size of the portfolio segments and determine whether these segments have reached their limits

2. Determine how much of the portfolio is delinquent

3. Determine the amount of the portfolio is tied to members with low credit scores

CU*BASE tools in the next release can help every credit union meet these goals.

RISK ANALYSIS SELECTION

How does a credit union begin managing concentration risk?

Starting with the *Risk Analysis Selection* menu, a credit union can begin the process of defining what to analyze. Credit unions have the ability to analyze concentrations by who owns the loan, how much the credit union has with a dealer, by loan category or purpose code, among a host of other options.

For a credit union just starting out, analyzing by segments is a good place to start. The credit union can look at G/L codes and group loans together. A credit union may wish to group these segments in the same way that Historical Loss Ratios are calculated.

In the example, the credit union is looking at New vehicle loans. By selecting those two G/Ls, the credit union can pull up a report on all New auto loans.

When the *Risk Analysis* appears, the credit immediately can see details on loan in the group such as the current balance, interest rate, credit score, and LTV/CTV. The credit union can drill down to each of the loans for additional details, or sort the fields however the credit union would wish.

The credit union also as the beginning of a concentration risk report that can eventually go to the board of directors. The report shows that the concentration of New vehicle loans is 238.35% of net worth, meaning the segment must be justified by the board of directors and monitored on no less than a quarterly basis. The report also shows the number of loans and the balance.

CONCENTRATION RISK REPORT – NEW VEHICLES

Concentration Risk	**238.35%**
Balance	**$35,752,746**
Number of Loans	**4,089**

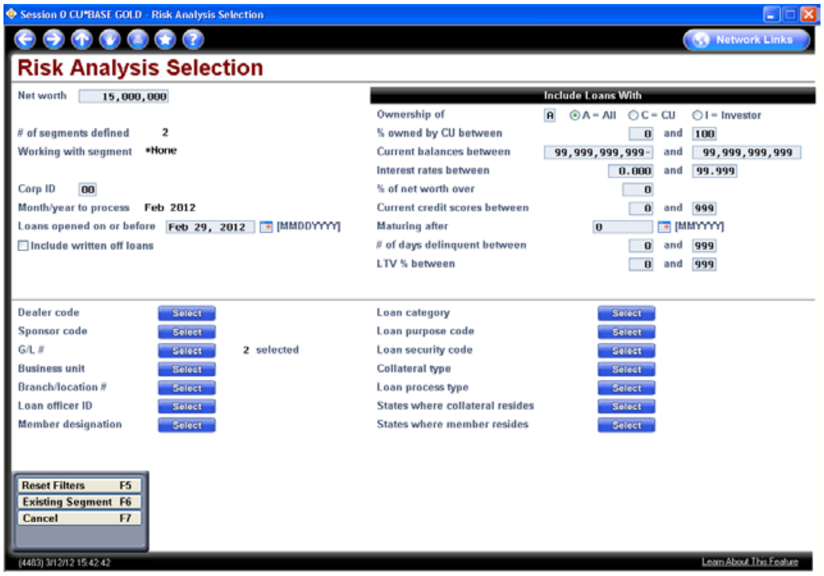


Figure 1 - Risk Analysis Selection Screen

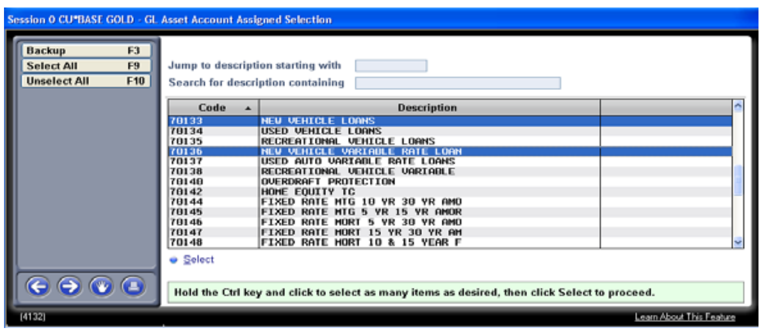


Figure 2 - GL Asset Account Selection

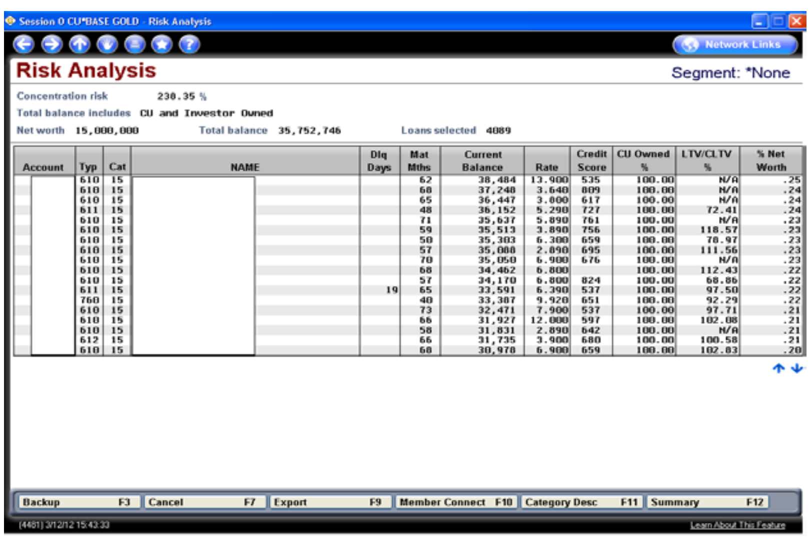


Figure 3 - Risk Analysis Screen

A MEASURE OF RISK

Now a credit union can measure risk in each segment

Now that the credit union has a handle on the amount of risk in the portfolio, it's time get a view into the riskiness of the portfolio. By going to the *Loan Risk Score Analysis Summary*, the credit union has at a glance the ability to review potential problems in this group.

Immediately the credit union can see how many and how much of the loans are outstanding. This gives the credit union insight as to how many actual dollars are at risk at any one time.

The credit union also has the ability to gather information on such things as the average balance due, average credit score, and loan maturity.

CONCENTRATION RISK REPORT – NEW VEHICLES

Concentration Risk	**238.35%**
Balance	**$35,752,746**
Number of Loans	**4,089**
Number of 60 day delinquent loans	**91**
Balance of delinquent loans	**$148,979**
Delinquent balance as a percent of total portfolio value	**0.4%**

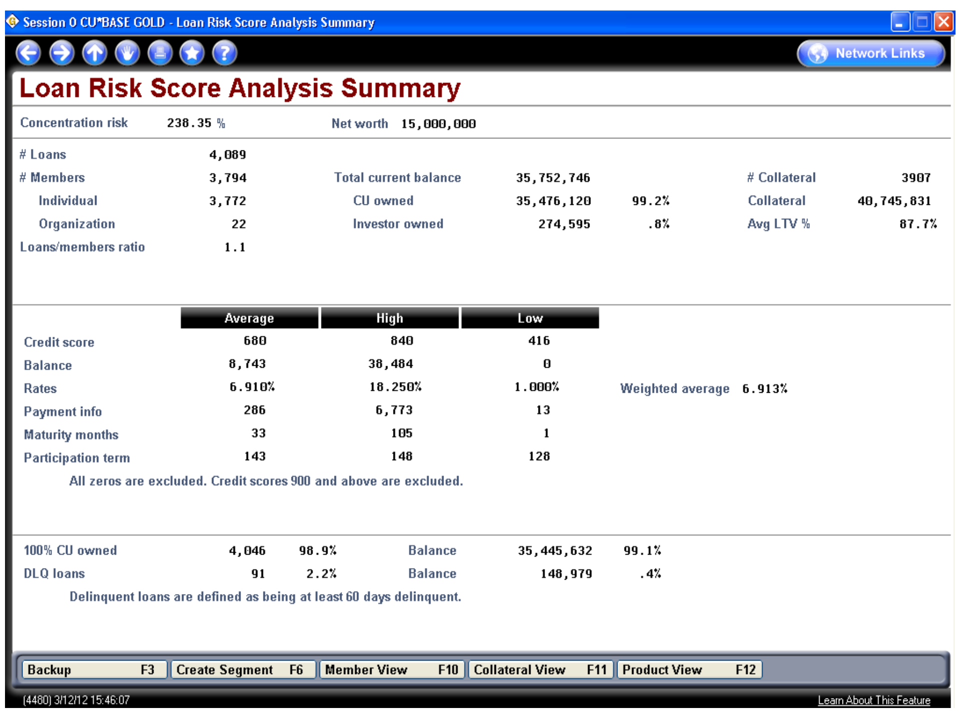


Figure 4 - Loan Risk Score Analysis

KNOW YOUR MEMBER **CREDIT** RISK

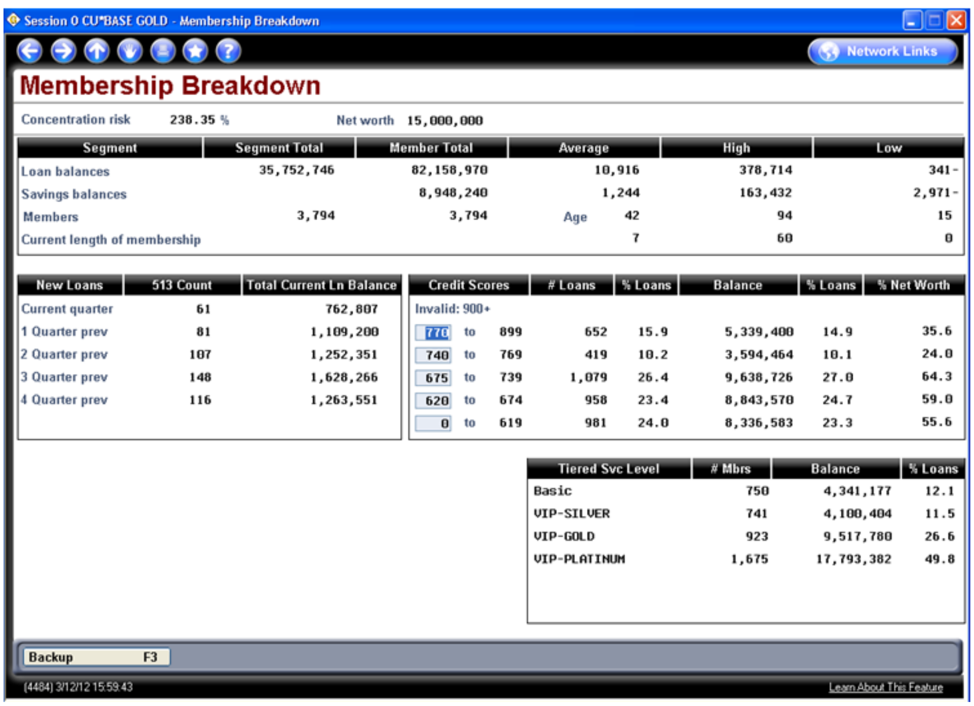
CU*BASE provides further knowledge about the credit riskiness of the portfolio

At the *Membership Breakdown* screen, the credit union can analyze the portfolio by credit score. In the example here, the credit union has a large percentage tied up in D and E paper both as a number of loans and as a percentage of net worth. The credit union should expect that an examiner is going to have concerns and therefore should be prepared to justify lending and collection processes.

A credit union that has done this analysis has a very good idea of how much risk the institution has undertaken and whether this risk suggests that the institution will come under examination scrutiny.

CONCENTRATION RISK REPORT – NEW VEHICLES

Concentration Risk	**238.35%**
Balance	**$35,752,746**
Number of Loans	**4,089**
Number of 60 day delinquent loans	**91**
Balance of delinquent loans	**$148,979**
Delinquent balance as a percent of total portfolio value	**0.4%**
D&E Paper Balance	**$17,180,153**
D&E as a percentage of net worth	**114.6%**


Session 0 CU*BASE GOLD - Membership Breakdown

Network Links

Membership Breakdown

Concentration risk 238.35 % Net worth 15,000,000

Segment	Segment Total	Member Total	Average	High	Low
Loan balances	35,752,746	82,158,970	10,916	378,714	341-
Savings balances		8,948,240	1,244	163,432	2,971-
Members	3,794	3,794	Age 42	94	15
Current length of membership			7	60	0

New Loans	513 Count	Total Current Ln Balance
Current quarter	61	762,807
1 Quarter prev	81	1,109,200
2 Quarter prev	107	1,252,351
3 Quarter prev	148	1,628,266
4 Quarter prev	116	1,263,551

Credit Scores	# Loans	% Loans	Balance	% Loans	% Net Worth
Invalid: 900+					
770 to 899	652	15.9	5,339,400	14.9	35.6
740 to 769	419	10.2	3,594,464	10.1	24.0
675 to 739	1,079	26.4	9,638,726	27.0	64.3
620 to 674	958	23.4	8,843,570	24.7	59.0
0 to 619	981	24.0	8,336,583	23.3	55.6

Tiered Svc Level	# Mbrs	Balance	% Loans
Basic	750	4,341,177	12.1
VIP-SILVER	741	4,100,404	11.5
VIP-GOLD	923	9,517,780	26.6
VIP-PLATINUM	1,675	17,793,382	49.8

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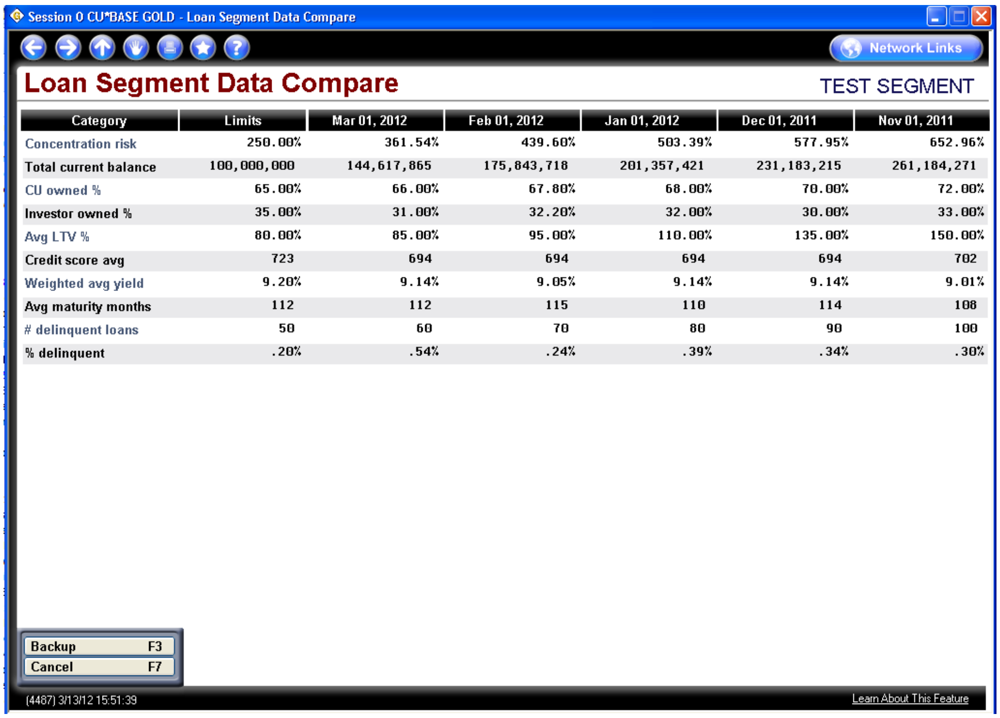
Figure 5 - Membership Breakdown

TREND ANALYSIS

With CU*BASE, a credit union can see where it has been and where it is going

Loan Segment Data Compare allows the credit union to do trend analysis on any portfolio segment or other risk group. The credit union can easily track the size of the portfolio and its maturity, delinquency, and weighted average yield. The weighted average yield score can be especially important as it determines whether the credit union is adequately compensated for taking on risk.



Category	Limits	Mar 01, 2012	Feb 01, 2012	Jan 01, 2012	Dec 01, 2011	Nov 01, 2011
Concentration risk	250.00%	361.54%	439.60%	503.39%	577.95%	652.96%
Total current balance	100,000,000	144,617,865	175,843,718	201,357,421	231,183,215	261,184,271
CU owned %	65.00%	66.00%	67.80%	68.00%	70.00%	72.00%
Investor owned %	35.00%	31.00%	32.20%	32.00%	30.00%	33.00%
Avg LTV %	80.00%	85.00%	95.00%	110.00%	135.00%	150.00%
Credit score avg	723	694	694	694	694	702
Weighted avg yield	9.20%	9.14%	9.05%	9.14%	9.14%	9.01%
Avg maturity months	112	112	115	110	114	108
# delinquent loans	50	60	70	80	90	100
% delinquent	.20%	.54%	.24%	.39%	.34%	.30%

Figure 6 - Loan Segment Data Compare