Concentration Risk Analysis

Concentration risk is the risk to the safety and soundness of the institution due to over-concentration in a single segment, member, or type of security in the loan or investment portfolio with the potential to produce large losses.

You should analyze all concentrated areas of investment as these propose a major risk, considering the possibility that market conditions change unfavorably. There are several tools and screens you can use to assist in analyzing your loan portfolio's concentration risk.



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Portfolio Analysis - Concentration Risk

Use **Tool #592** *Portfolio Analysis - Concentration Risk* to view, at a glance, your credit union's risk in the following areas:

- C, D, and E paper credit reports
- Number of loans delinquent over 60 days
- Balance of delinquent loans
- Delinquent balance as a percentage of total portfolio value

The Concentration Risk Analysis is a powerful tool that will assist you in defending and managing your lending practices as well as staying informed about the concentration risk associated with different segments at your credit union.

Define Your Segments

On the Risk Analysis Selection screen, begin the process of selecting what to analyze. Create segments by who owns the loan, dealer, loan category, purpose code, or more. If you are just starting out, you might group loans together by G/L code. You might want to consider grouping your segments in the same way that historical loss ratios are calculated.

Risk Analysis Selection		
Net worth		Include Loans With
CU risk policy limit 0.00	Ownership of	♦ All
# of segments defined 4	% owned by CU between	and
Working with segment *None	Current balances between	and
	Interest rates between	0.000 and 0.000
Corp ID B1	% of net worth over	0.00
Month/year to process Aug 2024	Current credit scores between	and
Loans opened From Jan 01, 1900 🗰 [MMDDYYYY]	Maturing after	m [MMYYYY]
To Aug 31, 2024 🛗 [MMDDYYYY]	# of days delinquent between	and
Include written off loans	LTV % between	and
	Collateral	Current value OPledged value
Dealer code Select	Loan category	Select
Sponsor code Select	Loan purpose code	Select
G/L # Select	Loan security code	Select
Business unit Select	Collateral type	Select
Branch/location # Select	Loan process type	Select
Loan officer ID Select	States where collateral resides	Select
Member designation Select	States where member resides	Select
Investor Select		
Reset Filters		
Select Existing Segment		
Data Source		
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After defining a segment on the Risk Analysis Selection, use Enter to advance to the Risk Analysis screen. Here you will find the segment's defined concentration risk. The field will highlight red or green depending on its relation to the credit union's risk limit.

				CII. 1.1			00.00				50.000	
oncentration	on risk	53	. 66 %	CU risk po	licy limit	1	00.00	Loans	s selecte	d	53,333	
Total balance includes CU and Investor Owned		Total bala	Total balance 1,609,828,958			Total number of Members			32446			
Net worth 3,000,000,000		Total Empl	Total Employee Records 1183		Total number of employees			; 509 📑 🔀 🔓				
Account	Туре	Cat	Member Na	ne	DLQ Days	Mat Mths	Current Balance	Rate	Credit Score	CU Owned %	Current LTV/CLTV	% Net Worth
	802	CN				1	4,703,191	4.000		100.00	71.26	0.1
	740	CR				31	4,250,000	4.250		100.00	47.71	0.1
	786	CR				47	3,525,432	3.060		83.71	50.36	0.1
	802	CN				19	3,407,890	4.000	692	100.00	266.24	0.
	785	CR				215	3,246,976	5.500		100.00	42.94	U. O.
	711	24				14	3,014,373	6.380		100.00	54.31	Ū.
	740	CR				28	2,888,506	4.000	774	100.00	70.97	0.
	786	CR			40	105	2,110,215	3.500		10.00	52.98	U. 0
	786	S2				241	2,289,486	6.500	813	100.00	44.02	0.
	706	FC				156	2,259,795	4.500	712	100.00	95.14	0.
	785	CR				98	2,120,323	3.500		10.00	62.54 76.69	U. 0
	802	CN				89	1,938,847	3.750		100.00	0.00	0.
	743	CR				31	1,890,265	4.000	774	100.00	69.75	0.
ame Highli	ght = DL	Q Days	> 59									·
ommon Bor	nds	E	kport	Member Conne	ct	Categ	ory Description	Sum	mary		Show Emplo	oyees Only
ata Source												
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Enter the Analysis Summary to Review Your Segment Data

On the Loan Risk Score Analysis Summary, view the riskiness of the portfolio at a glance and the potential problems in the group. This screen shows you how many of the loans are outstanding and gives you insight as to how many actual dollars are at risk at any one time. You also have the

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

You want your average credit score to remain steady. If it is rising, your loan portfolio is becoming less risky but also won't bring in as much interest income. If average credit score is dropping, your portfolio is becoming riskier, and delinquencies would need to be closely watched.

Loan Risk S	Score Ana	lysis Summa	ry	Segment: *I	None
Concentration risk	53.66 %	i3.66 % CU risk policy limit .00 %		Net worth 3, 800, 800, 800 📑	× 🚽
# Loans	53,333				
# Members	32,446	Total current balance	1,609,828,653	# Collateral 31449	
Individual	31,610	CU owned	1,037,539,426 64.5%	Collateral 2,729,347,692	
Organization	836	Investor owned	572,289,228 35.5%	Avg LTV % 54.5%	
Loans/members ratio	1.6				
	Average	High	Low		
Credit score	700	850	1		
Balance	30,184	4,703,191	4,969-		
Rates	8.378%	25.000%	1.000%	Weighted average 5.463%	
Payment amount	386	200,187	0		
Maturity months	103	595	1		
Participation term	92	508	1		
<i>i</i> All zeros are ex	cluded. Credit scor	es 900 and above are excl	uded.		
100% CU owned	48,540 91	.0% Balance	1,031,044,276 64.0%		
Delinquent loans	790 1	.5% Balance	14,632,867 .9%		
<i>i</i> Delinquent loa	ns are defined as be	eing at least 60 days deling	uent.		
Create Segment	Member View	Collateral View	Product View		
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Learn More in Online Help

Obviously, rising delinquencies are not a good thing. Monitoring this and making sure they stay low or consistent is a must. If they are getting high, your CU might want to consider making a stricter lending policy or strengthening your collecting dept. If they are very low, you can afford to try riskier loans to bring in some extra income from the higher interest rates.

Review Three Additional Analysis Screens

From the Loan Risk Score Analysis Summary screen, you can access three additional analysis screens. These analysis screens allow you to do a deeper dive on your portfolio segment's concentration risk by breaking down segments by collateral type, loan category/purpose, or various membership details (credit scores, new loans, tiered services, delinquencies, etc.).



loans by credit score, delinquencies, tiered services, new loans, and more.

The new loans section breaks down loan volume by quarter. All credit unions have different plans, whether that is aggressively adding or cutting back on loans, but you can monitor that on this screen.

You can use the Membership Breakdown screen to monitor how risky your portfolio is from a credit score standpoint and determine what changes need to be made, if any. For example, you might find you have a large percentage tied up in D and E paper in both the number of loans and percentage of net worth. When analyzing the credit scores, you want a good bell-shaped curve with your loans. A majority of high credit scores won't bring in much interest income, and a majority of low credit scores would be extremely risky.

Collateral View

From the Collateral Breakdown screen, you can analyze your loan portfolio segment by type of collateral. View how many loans are backed by collateral, the collateral value, LTV %, and more.

Product View

From the Product View screen, you can analyze your portfolio segment concentration by loan categories and loan purposes. View the total balance, percent of total balance, and percent of net worth for each category/purpose.

Watch for products with high percentages of the total balance/net worth; these products demonstrate areas of concentration in your loan portfolio. You do not want to rely too heavily on one product or service. You can use this information to determine which loan products to invest more or less time and money into.

Once you have done this analysis, you will have a very good idea of how much risk your institution has undertaken.

Create a Snapshot of Your Data to Compare Progress

The real power of this dashboard, however, is that it can also be a trending tool. To do trend analysis on any portfolio segment or other risk group, access the Loan Segment Data Compare

screen from the entry screen for **Tool #592** by selecting Select existing segment, choosing a segment, then Compare.

You can easily track the size of the portfolio and its maturity, delinquency, and weighted average yield. The weighted average yield score is especially important as it determines whether your credit union is adequately compensated for taking on risk.

Immary Concentration R	Risk Total Current B	alance Average LTV %	Weighted Average	Rate %	Delinquent			POF 🕍
Category	Limits	9/24/2024	8/14/2012					
oncentration risk	199.14%	923.15%	217.08%					
otal current balance	50,000,000	231,782,372	54,504,266					
Jowned %		100.00%	99.23%					
vestor owned %			. 80%					
g LTV %		60.10%	80.30%					
edit score avg		701	683					
leighted avg rate		6.775%	6.437%					
vg maturity months		40	37					
delinquent loans		216	121					
delinquent		1.68%	2.33%					
							(
	·				Data C	aptured		
	Segm	ent Name	Created	Days	Last Date	Days	#	
	AUTU LUANS		8/14/2012 10/11/2015	4426 3273	97247202	4 2	2	
	1		9/24/2024	2				
	2		972472024	2				
2	<u>Select</u>	<u>C</u> opy <u>D</u> elete	Compare		S <u>u</u> mmary			
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Loan Concentration Risk Report by Member

Use **Tool #460** *Loan Concentration Risk Report by Member* to view loan concentration risk by member. This screen shows you the members with the most outstanding loans with your credit union. You can toggle this list to sort it by credit score, loan balance, or disbursement limit. You can also pick out types of loans, such as closed end loans, rather than totals of all members loans.

It's important to monitor this tool to ensure one or a few members don't comprise too much of your loan portfolio. Also, you can monitor outstanding debt and compare it to credit scores to see how much income you are making based on the amount of risk you are taking.

From this dashboard, you can access the Outstanding Loan Recap dashboard to analyze a member's lending relationship further. (Learn more about the Outstanding Loan Recap below.)



Outstanding Loan Recap/Inquiry

View a recap of a member's outstanding loans via **Tool #53** *Process Member Applications* by inputting an account base and selecting Action Code OL – Loan Recap (Active Loans For Which Borrower Is Responsible) or via **Tool #460** *Loan Concentration Risk Report by Member* by selecting a member and Outstanding Loan Recap/Inquiry.

This dashboard includes balances, risk levels, collateral information, service income, and more! The corresponding analysis dashboard (accessed by selecting Analysis) lets you analyze this member's lending relationship via six different analyses, providing a detailed breakdown of the member's credit scores (with graphing), contingent liability details, delinquency information, etc.

