

SECTION XV
CONCENTRATION RISK

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**Red Crown Federal Credit Union
Policy Manual
Section XV – Concentration Risk**

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A. Statement of General Policy

Credit Union officials and management have a fiduciary responsibility to identify, measure, monitor and control concentration risk. Concentration risk must be managed in conjunction with credit, interest rate and liquidity risks; as a negative event in any category may have significant consequences on the other areas, as well as on strategic and reputation risks. This policy addresses the Board of Directors philosophy on concentration risk and limits commensurate with asset and net worth levels.

B. Definition

A risk concentration is any single exposure or group of exposures with the potential to produce losses large enough (relative to capital, total assets, or overall risk level) to threaten the credit union's health or ability to maintain its core operations.

C. Responsibility

The Board of Directors is responsible for strategic oversight and setting the overall policy. The Board will determine the risk levels and acceptable limits of concentration risk.

D. Data Management

Management will maintain comprehensive and accurate data for each risk area. This data will include information sufficient to record and update risk factors and will include but is not limited to: Credit scores; collateral values; rate-sensitivity of shares; prepayment speeds of loans and other significant factors. Quality control functions will ensure data entry and changes are accurate and timely.

E. Risk Rating System

A risk rating system will be utilized to manage concentration risk in the loan portfolio. Consumer loan ratings will initially be assigned based on borrower credit score and/or loan type. Member business loan rating will be assigned as set forth in the member business loan policy.

F. Reporting

The reports will measure concentration risk against board approved parameters, consider economic factors that could affect concentration risk and measure the changes in risk over time.

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G. Risk Assessment Analysis

Concentration limits are maintained in the Concentration Risk report. Management will perform a ***review*** of concentrations for the following general lines of business:

1. Assets
 - a. Loans – will be classified in these major categories:
 1. Real Estate Loans
 2. Risk-Priced Consumer Loans
 3. Indirect Loans
 4. Member Business Loans
 5. Participation Loans
 - b. Investments
 1. Mortgage Related Securities
 2. Collateralized Mortgage Obligation
 3. Certificates of Deposit
 4. Municipal Securities
2. Liabilities
 - a. Member Deposits
 1. Money Market
 2. Share Certificates
 - b. Borrowings

H. Corrective Action

The Board recognizes that policy deviation may occur from time to time. Management will bring any deviation from this policy to the attention of ALCO and the Board of Directors, along with a plan and recommendation for corrective action. Actions may include, but are not limited to, disposal of assets, rate adjustments to control loan and deposit demand and steps to increase net worth.

I. Compliance Statement

This policy is intended to comply with all NCUA regulations. This policy will be reviewed annually by the ALCO and amended as and when deemed necessary.