GUIDANCE

Global or Extended Risk Analysis

Reference: Standards of Sound Business and Financial Practices

M-3 Credit Risk

Standard M-3 Credit Risk requires a credit union to have documented appropriate policies on the areas and type of credit in which the credit union is willing to engage and appropriate and prudent policies on exposure limits for a single risk, associated or connected borrowers, specific industries, geographic regions and other credit exposures warranting aggregation.

Introduction:

Completion of a Global or Extended Risk Analysis is a necessary component of determining whether an overall group of connected, or related, entities are viable and the overall credit risk is acceptable to the Credit Union.

A global risk analysis should be considered when connected or related parties exhibit one or more of the following traits:

1. When related parties have common ownership and share security between Credit Union loans.
2. When related parties have a common goal and are dependent upon each other to achieve this goal.
3. Where the member can control or can be controlled or significantly influenced by a related party.
4. Where direct and/or indirect exposure has the potential to produce losses large enough to threaten the Credit Union's health or its ability to maintain its core business.

Common Components in a Global Risk Assessment:

1. Expanded Member History:
   a. Provide commentary, or an organization chart, that illustrates ownership, relationship and cash flow between the parties.

2. Financial Statement Analysis:
   a. In most cases, accountant prepared consolidated financial statements, in review engagement format, should be provided. The member's accountant is in the unique position to reconcile the member and related parties financials even if the entities year ends fall on different dates.
   b. Barring provision of Consolidated Statements the analysis will likely take a good deal of time and effort to evaluate the viability of each of the entities within a specific group, especially those that are borrowers or the private companies of some of the owners.

Global or Extended Risk Analysis

3. Covenant consideration:
   a. Established financial, negative and keep well covenants should be applicable to the group as a whole and consistent throughout the member and related Credit Union exposure.
   b. If regular transfer of assets, funds, security, etc. is evident, the credit union should determine how this will be curtailed after approving financing for any of the entities.
   c. The credit union should ensure that acceptable negative covenants are put in place to prevent unwanted movement of assets without the approval of the CU or CUDGC, depending on credit limits.

The above reflects basic components of an extended risk analysis and is not to be considered as a template for all Global Risk Analysis situations, many of which may require more detailed analysis as complexity increases. Credit unions are encouraged to establish their own policies with respect to concentration risk tolerances for direct, connected, or related exposures that would require a global risk analysis. Please contact your Manager, Regulation and Credit Risk Assessment, for guidance with specific situations.