

Industry Codes and Concentration Risk

Loan Volumes and Portfolio Mix

Credit policy must limit the overall volume and mix of credit risk to be included in the loan portfolio. Credit policies should specify prudent limits on concentration of risk as follows:

- for each loan class, specify aggregate loan limits (as a percentage of capital and deposits) and individual loan limits (e.g. maximum dollar amount for individuals and their connected parties) - it may be prudent for these to be lower than what is allotted in the lending licence;
- establish prudent limits (either as a percentage of total loans or of total assets) and/or prohibitions on higher risk loan categories, including syndication loans, brokered loans, and loan concentrations within certain industries (**refer Industry Classification below**) , or riskier categories of loans within authorized lending classes such as personal loans for commercial purposes, social conscience loans, consolidation loans etc;
- establish limits on connected and restricted party loans (which may be lower than what is required by statute) as well as any policy restrictions or conditions for the approval of such loans.

Although authorized lending classes are clearly set out in the credit union's lending licence, it is nevertheless a prudent practice to acknowledge these lending classes in lending policy for easy reference by board and staff. Policy should state that the credit union must comply with its lending licence, and should set out those areas where policy restricts lending below the licence limit.

Industry Classification

To facilitate measuring and monitoring loans concentrated within certain industries, it is recommended that all commercial loans are classified using the North American Industry Code Standards (NAICS).

For simplicity, only the primary industry codes need to be used except for agricultural, construction and real estate loans. Loans in these sectors require further segregation and should be classified by the use of industry sub codes.

Additional NAICS codes are available for use where required and where further classification is appropriate. These can be obtained through the NAICS website at –

<http://www.census.gov/epcd/naics>

A listing of suggested industry codes is provided in Schedule 1 below.

Industry Codes and Concentration Risk

Schedule 1			
NAICS Industry Codes			
Primary Code	Primary Category	Sub-Code	Sub-Group
11	Agriculture	111	Crop Production
		112	Animal Production
		113	Forestry
		114	Fish/Hunting/Trap
		115	Support Activities
21	Mining/Oil/Gas Explorartion		
22	Utilities		
23	Construction	231	Prime Cntracting
		232	Trade Contracting
33	Manufacturing		
41	Wholesale		
44	Retail		
45	Retail		
48	Transportation		
49	Warehousing		
51	Information/Cultural		
52	Finance/Insurance		
53	Real Estate	531	Real Estate
		532	Rental/Leasing
54	Professional/Scientific/ Technical		
55	Management		
56	Administration		
61	Education		
62	Health Care		
71	Arts/Recreation/ Entertainment		
72	Accomodation/ Food Servics		
81	Other Services		
91	Public Administration/ Government		