

Understanding the Fundamentals of Credit Union Third-Party Vendor Due Diligence

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The Past, the Present and the Future

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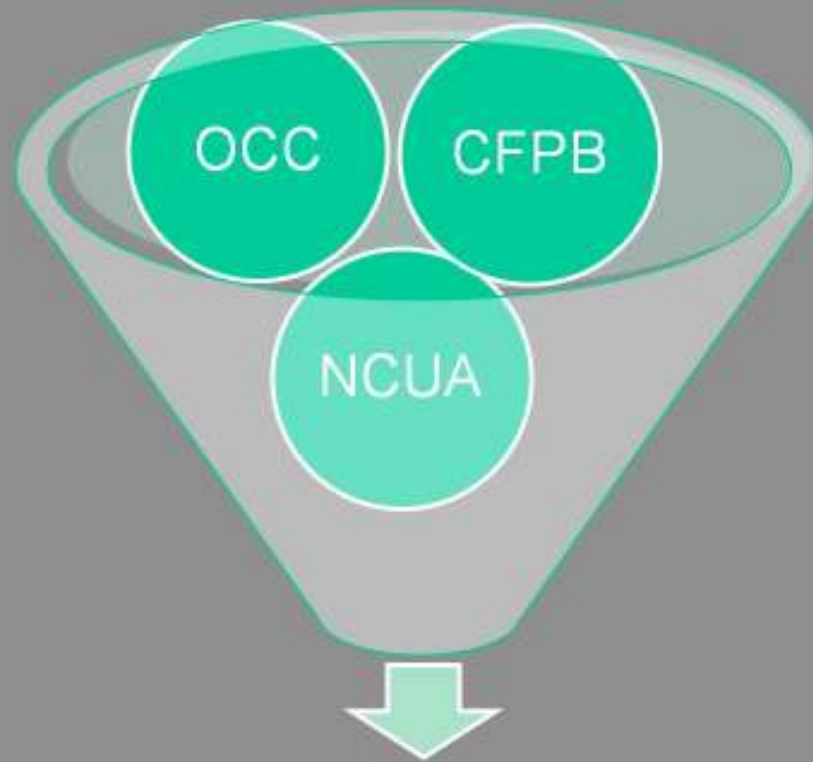


The Good News!



- Parameters have been established.
 - National Credit Union Administration (NCUA)
 - Consumer Financial Protection Bureau (CFBP)
 - Office of the Comptroller of the Currency (OCC)
- Sufficient regulatory guidance is in place for Credit Unions to:
 - Contemplate the criticality of vendors
 - Determine the level of risk associated with third party relationships and the processes they facilitate
 - Determine degree of rigor to which third parties should be managed

Third Party Due Diligence Guidance



Guardrails to help you develop an effective third party vendor management program

Present Official Guidance

- NCUA Supervisory Letter 07-CU-13 December 2007
- NCUA Supervisory Letter 07-01 October 2007
2012-03 April 13, 2002
- NCUA Part 715.3
 - (a)(2) Establish practices and procedures sufficient to safeguard members' assets.
 - (b)(4) Policies and control procedures are sufficient to safeguard against error, conflict of interest, self-dealing and fraud.

Present

Official Guidance (cont.)

- Supervisory Letter 07-01
 - Credit Unions must complete due diligence necessary to ensure the risks undertaken in a third-party relationship are acceptable in relation to their risk profile and safety and soundness requirements.
- CFPB – CFPB Bulletin - (Service Providers)
Fair Lending – August 18, 2012
- “Service Providers” – “Third-Party Vendors”
Indirect Lending – NCUA 10-CU-15; August 2010
CFPB – March 21, 2013
- OCC Bulletin 2013-29 – Third Party Relationships

Future

- NCUA – seeking legislative authority to examine all service providers
 - Some authority to “examine CUSOs”
- CFPB – “CFPB expects supervised banks and nonbanks to have an effective process for managing the risks of service provider relationships.”
 - “The CFPB will apply these expectations consistently, regardless of whether it is a supervised bank or nonbank that has the relationship with a service provider.”
 - The CFBP will continue to have keen focus on how the products are/were marketed to protect members

CFPB Expectations Service Provider Oversight

- Service provider compliance with Federal consumer financial laws, rules and regulations
- Reviews of service providers' policies, procedures, internal controls and training materials
- Confirmation that service provider contracts provide for “appropriate” and enforceable consequences for breach of contract as well as any compliance-related responsibilities
- Prompt corrective action as “appropriate”

Examples of Third-Party Vendors (Service Providers)

- Third Party Contractors
- Internet Providers
- Indirect Lending
- Information Technology
- Accounting and Legal Firms
- Insurance Companies
- Social Media
- Maintenance Firms
- Cloud Computing Firms



Risk assessment is needed to determine risk rating of various service provider types. Risk ratings determine the due diligence required for third parties.

Importance of Comprehensive Due Diligence

- Credit Unions have responsibility for ensuring sound business practices are followed even if a third-party is involved
- Credit Unions are responsible for protecting member assets
- Credit Unions must demonstrate an understanding of the third party's organization
- Credit Unions must ensure third parties comply with all aspects of consumer laws, rules and regulations



A due diligence review should contemplate the critical nature of the service, third party risk assessment and profile, level of expertise exhibited, and risk mitigation strategies.

Key Due Diligence Elements



- Company information
- Business Model
- Financials
- Policies and Procedures
- Risk Management
- Insurance
- Controls
- Information Security
- Business Continuity

Key Contracting Considerations



- Price; Delivery Date; Specific Services & Obligations
- Service Levels
- Member complaints
- Reporting
- Information protection
- Credit Union to prepare an RFP
- Termination
- Get the proposed contract timely????
- Documentation; Documentation; Documentation

Common Pitfalls & Challenges



- Failure to include critical provisions
- Failure to set trigger to review contracts prior to renewal
- Not incorporating marketing materials
- Afraid to ask??
- Trapped by time???*
- Conversion obstacles????
- Resource constraints

Let's chat
about the
intent of
afraid to
ask,
trapped by
time &
conversion
obstacles.

Best Practices

- Periodically review NCUA Letters to Credit Unions
- Periodically review CFPB Bulletins
- Review NCUA Examiners Guide
- Review and update policies and procedures annually
- Leverage learning opportunities (webinars, forums, articles, etc.)
- Understand the requirements and what to ask for
- Use checklists to assist in ensuring all areas are covered
 - Due diligence check list will be distributed to webinar attendees.
- Seek to partner with companies that understand the regulatory requirements and can help you interpret them

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Questions?



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