The Volunteer's Role in Third-Party Vendor Relationships

CUNA
Credit Union National Association

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Third-party vendor relationships have been an NCUA hot topic for several years. This Training On Demand module is designed to give you, the credit union volunteer, an overview and basic understanding, which will provide enough information for you to ensure that your credit union is meeting the NCUA requirements and providing for sound business relations with your third-party vendors.

We've included a number of PDF documents in the resources for your ongoing use. We recommend that you save these to your own computer and print them to use as a reference as we proceed through this session. We are also providing you with a copy of the CUNA Due Diligence Task Force, *Third-Party Vendor Management Guide*. This guide may be updated from time to time. For the most recent version visit *www.cuna.org/initiatives/due_diligence.html* and download a FREE copy.

Objectives

- Teach the basic requirements for managing a third-party vendor relationship.
- Help you understand the NCUA regulations.
- Develop strategies for you to provide guidance to management in setting up and maintaining great relationships for the credit union.
- Identify questions that you may want to ask your vendors.

While it may be tempting and easy to underestimate the significance of third-party vendors, the risks inherent to them can be very large. Many risks specific to these relationships are absent when the work is done in-house. Developing a basic third-party vendor management process is essential to mitigating the risks related to delivering quality products and services to members, while protecting the credit union's brand image and intellectual property.

Third-Party Vendors

Third-party vendors are any outside party or person, including Leagues and Credit Union Service Organizations (CUSOs), that are paid to provide a product or service to the credit union. These are sometimes referred to as outsourced relationships. These relationships are often perceived as services performed outside the credit union when in fact the product or service may be provided either outside or inside the credit union by a third party.

It is perfectly fine for credit unions to use third-party vendors. Their use often allows credit unions to provide products and services that are more cost effective. They may enable your back office functions to operate more efficiently, a benefit to your staff, management and members.

Identification

To identify your third-party vendors, ask your accounting staff to provide you with an accounts payable list. Everyone that you are paying, excluding employees, is providing some sort of product or service to the credit union. Each of these is a third-party vendor.

Focus of Attention

The NCUA is most concerned about the *essential* or *critical* vendors. Those are the vendors providing products and services needed for the credit union to remain in operation. These relationships could result in a major disruption of service to your credit union or members if anything were to happen with those relationships. A core processor or loan processor are examples of a critical or essential vendor. The NCUA expects to see detailed information, gathered through due diligence, on the selection and on-going management of all essential vendors.

NCUA's Guidance

The requirements for third-party vendor management are, for the most part, provided by the credit union regulator, the National Credit Union Administration. Other regulators provide regulations specific to an area that may be outsourced, such as federal lending regulations that are applicable for credit union loans.

The NCUA's guidance is provided to credit unions in several forms: letters, field staff guidance, and questionnaires. The relevant guidance pieces are provided as PDF files in the resources tab of this module. You may also locate these and any new releases by going to the NCUA's Web site, *www.ncua.gov*. These are also included in the *CUNA Third-Party Vendor Management Guide* (CTPVG).

Early Advice

In the late 1990s, the NCUA noticed that credit unions were using more and more outside vendors to provide a greater variety of products and services to members. Its concern increased as it documented a growing number of instances where the credit union had suffered financial losses related to their use of third-party vendors. Letter number 01-CU-20 dated November 2001, "Due Diligence Over Third-Party Service Providers", (see page 71 of the CTPVMG) states, "Generally, these situations occurred because the credit union either failed to exercise proper due diligence before entering into a relationship or failed to set up controls to monitor performance." At that time the NCUA identified minimum procedures for credit unions to follow when determining to use third-party vendors. They included: