THIRD PARTY VENDOR REVIEW

VENDOR _______________________

DATE:__________________________

Performance Review Date_________

I. INTRODUCTION

A. Service Provided: ____________________________

B. Other Vendors Reviewed

C. How does the vendor meet the Credit Union’s business strategic mission?

II. PLANNING AND RISK ASSESSMENT

A. Has management evaluated the vendor’s risk position to the credit union operation?

   1. What risks are associated with this vendor to our financial and operational positions and the membership?

      a. Credit Risk:

      b. Interest Rate Risk:

      c. Liquidity

      d. Transaction
e. Compliance

f. Strategic

g. Reputation

2. What are the performance goals expected from the vendor?

3. Who will be responsible for reviewing and maintaining the contract?

4. What training will the staff need to perform effectively under the contract?

5. Why is this contract/Vendor considered critical to the credit union?

6. Has the cost benefit of the contract been attached to the end of the review sheet?

7. What impact will the contract and vendor have on the membership?

8. What is the exit strategy if the contract/vendor does not meet our expectations or goals? What is the cost to terminate the contract?

B. What is the total cost of monitoring and performing under the conditions of the contract, including staffing, capital expenditures, communications and technological investment?
C. Has the Business Plan address the specific goals for the contract that can be measured and evaluated?

D. What financial or operational benefit do we expect to earn from this contract?

E. Have we included the goals into the business plan and ALM strategies?

III. DUE DILIGENCE – BACKGROUND

A. What is the vendors experience in providing this service to credit unions and the membership?

B. Attach the credit union’s client list and any recommendations about their experience with the vendor to the end of the Third Party Review Checklist.

C. What lawsuits are pending against the vendor or its associates?

D. Do the vendors or their agents have the proper licenses or certifications to perform the contract?

E. Attach other reference data used in evaluating the vendor such as Better Business Bureau, Credit Reports, Federal Trade Commissions, state consumer affairs division, Broker Background checks, etc.

IV. DUE DILIGENCE – BUSINESS MODEL

A. What is the vendors business model show for the long-term prospect of performing the contract and meeting the credit union’s expectations?

B. What are the vendors primary sources of income and expenses. Does the business model project positive future earnings?
C. Are there any conflict of interest between the vendor and the credit union? The vendor and local competition?

V. **DUE DILIGENCE – CASH FLOW**

A. How are we to account for the cash flows between the vendor and us and us and the vendors. Describe the accounting process and the general ledger and posting process.

VI. **DUE DILIGENCE – FINANCIAL AND OPERATION CONTROL REVIEW**

A. Attach the vendor’s annual financial statements to the end of this review checklist.

B. Review the Financial Statements to ensure the vendor and its affiliates are financially stable on an annual basis.

C. Attach other documents used to attest to the financial and operational well being of the vendor and its affiliates, such as SAS 70 reports.

VII. **DUE DILIGENCE - CONTRACT ISSUES AND LEGAL REVIEW**

A. How does the contract address the following issues:
   a. Scope of the contract, services offered, and authorized activities, etc.
   b. Responsibilities of all parties, including sub-contractors
   c. Performance expectations and goals, including how they should be measured
   d. Performance reports and submission dates
   e. Penalties for lack of performance
   f. Ownership, control, maintenance, and access to financial and operating records. The contract should not transfer any ownership rights to our name, software or trademarks.
   g. Ownership of servicing rights, if any
   h. Audit rights and requirements, including responsibility for payment and access.
i. Data security and member confidentiality, including testing and audit
j. Business resumption or contingency planning processes
k. Proof of current insurance requirements
l. Member complaint and member servicing requirements, including notification
m. Compliance with regulatory issues and updates as necessary, including BSA, Privacy, Graham-Leach-Bailey Act, etc
n. Dispute resolution guidelines
o. Default, termination and escape clauses
p. Conversion terms and conditions

B. Attached any legal opinions regarding the contract and services provided by the vendor.

C. Document verification that the vendor is not in violation of any state or federal laws.

VIII. **DUE DILIGENCE - ACCOUNTING CONSIDERATIONS**

A. Document any verification with compliance offices that the accounting treatment followed by the credit union is in compliance with GAAP.

IX. **RISK MEASUREMENT- MONITORING AND CONTROL**

A. What reports are necessary to monitor the vendor's performance and when will they be prepared. (At least monthly)
B. Have monthly reports been presented to senior management on the performance of the vendor under the contract, the results of the services offered and whether goals have been achieved.
C. How often is a review of the contractor performance and staff awareness reviewed by management?
D. What procedures do we need to verify vendor transactions with the membership?
E. Is the contract allowing the vendor to service account transactions? If so, are we getting monthly reports on the transactions? Where do we keep such reports?
   a. Have the reports been timely received and reviewed internally:
   b. Do the reports effectively summarize performance of the vendor and how well the portfolios are performing?
   c. Are we reconciling the vendor reports to the GL and subsidiary ledgers to ensure accounts are in agreement?

F. Have we controlled any account verifications that the vendor services?

G. What procedures do we follow to verify the vendor reports are accurate?

H. If this vendor services loans, what is the time the vendor is to submit payment to the credit union? Is the vendor in compliance?
   a. Does the vendor place payments in a credit union fund or lock box or his general account. Does the contract require our funds to be handled separately from other clients?
   b. Are reports appropriate to show the handling of returned checks and whether accounts and maturity dates are timely adjusted?

I. Are our staffing levels and technology appropriate to monitor the third party arrangement?

J. What internal controls have we established to monitor our compliance with the contract?

K. Do our policies address the steps necessary to comply with, review, monitor and measure the success or failures of the contract.
L. Do policies place limits on the third party performance until we can assess the success of a new program.

M. Do the contracts allow for modifications if the intent of a new program is not being achieved and adjustments are necessary?

N. Has the vendor been properly included on the Third Party Vendor Log, including any updates to the maturity periods and renewal.

O. Has the vendor's performance been properly evaluated prior to renewal?

X. CONTROLS OVER MEMBER DATA

A. How does the credit union communicate with the third party, including the transmission of member account data?

B. What security features does the vendor have to protect critical member data?

C. Does the contract prohibit the vendor from sharing any critical member data without the credit union’s or the member’s permission?