

# **ATTACHMENT 1**

## **STATEMENT OF OBJECTIVES**

### **1. INTRODUCTION**

The National Credit Union Administration (NCUA) is an independent agency of the Executive Branch of the United States responsible for chartering, supervising and insuring federally-chartered credit unions, and insuring the substantial majority of state-chartered credit unions. Its mission is to ensure the safety and soundness of insured credit unions through appropriate regulation and supervision, while effectively managing the agency's resources and the National Credit Union Share Insurance Fund.

### **2. BACKGROUND**

NCUA administers the Federal Credit Union Act created by Congress to serve, protect, and promote a safe, stable national system of cooperative financial institutions that encourage thrift and offer a source of credit for their members.

NCUA charters, regulates, and supervises federal credit unions throughout the United State and its territories. NCUA insures savings in federal and most state-chartered credit unions through the National Credit Union Share Insurance Fund (NCUSIF), a federal fund backed by the full faith and credit of the United States Government. The NCUSIF insures the savings of more than 90 million account holders in all federal credit unions and the substantial majority of state-chartered credit unions. As of December 31, 2011, there were 4650 federal credit unions and 2795 federally insured state-charter credit unions.

NCUA also administers the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund (CDRLF). The CLF serves as a back-up lender for member credit unions, while the CDRLF provides loans and grants to enhance low-income credit union operations.

NCUA is funded by the credit unions it supervises and insures through fees submitted to the NCUA Operating Fund and transfer costs assessed against the NCUSIF. NCUA's headquarters is located in Alexandria, VA. NCUA has five regional offices located in Albany, NY, Alexandria, VA, Atlanta, GA, Austin, TX, and Tempe, AZ, as well as an Asset Management Assistance Center located in Austin TX.

NCUA is a member of The Federal Financial Institutions Examination Council (FFIEC) established by Congress in 1979. FFIEC is a formal interagency body that promotes uniformity and consistency in the examination and supervision of financial institutions by the Board of Governors of the Federal Reserve System (Board or FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). In 2006, the State Liaison Committee (SLC) was added to the FFIEC as a voting member. The SLC includes

representatives from the Conference of State Bank Supervisors (CSBS), the American Council of State Savings Supervisors, and the National Association of State Credit Union Supervisors.

### **3. SCOPE OF SERVICES**

**NCUA seeks to engage a qualified vendor to conduct supervisory stress testing of natural person credit unions with assets of \$10 billion or more in accordance with §702.506 Annual Supervisory Stress Testing of NCUA's Rules & Regulations as approved by the agency's board of directors on (April 24, 2014). A copy of the rule is attached (Attachment 9). This will be available on the NCUA website when published by the Federal Register.**

#### **A. Purpose of Engagement**

As stated in the final rule, NCUA will conduct an annual stress test of each covered credit union using baseline, adverse, and severely adverse scenarios. For purposes of this RFP, the scenarios will be those developed by the Federal Reserve, and used also by the FDIC, and the OCC for their regulated institutions.

NCUA will conduct the stress test using the credit union's financial data as of September 30 of that year. NCUA stress test analysis will take into account all relevant exposures and activities of a credit union to evaluate its ability to absorb losses in specified scenarios over a 9-quarter horizon. The minimum target stress test capital ratio for covered credit unions, as defined by the rule, is 5 per cent.

The vendor will use standardized models of classes of assets or liabilities based on pooled or other available historical data to forecast future performance. Performance will vary based on portfolio characteristics and the balance sheet composition of each credit union. In conducting a stress test under this subpart, during each quarter of the stress test horizon, the vendor will estimate the following for each scenario for each covered credit union:

- (1) Pre-provision net revenues, loan and lease loss provisions, and net income; and
- (2) The potential impact on the stress test capital ratio, incorporating the effects of any capital action over the stress test horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the horizon. The vendor will conduct the stress test without assuming any risk mitigation actions on the part of the covered credit union, except those existing and identified as part of the covered credit union's balance sheet, or off-balance sheet positions, such as asset sales or derivatives positions, on the date of the stress test.

In addition to stating the stress test capital ratio of each covered credit union after the stress test, the vendor must assess the impact of the key variables applicable to each credit union. The vendor must provide a sensitivity analysis of these key variables, and explain the quantified contribution to changes in stress test capital, to allow NCUA to determine the risk exposure of the credit union.

**The vendor will identify any real or potential conflicts of interest that would arise in assisting the National Credit Union Administration (NCUA) with the proposed services described in the RFP.**

Conflicts will include but are not limited to assisting any covered credit union to conduct its own stress tests. In particular, any vendor who is assisting a credit union to conduct its own stress tests may **NOT** submit a proposal responding to this RFP. In addition, vendors are advised to review the NCUA Clause entitled “Organizational Conflicts of Interest” (contained in the attachments to the RFP) and will be required to submit the required Non-Disclosure Agreements if selected for award. These requirements will remain in effect throughout the duration of the Period of Performance of the contract.

## **B. Submission Requirements**

The vendor will describe the design specifications that will be used in performing the stress tests, and any data specifications required. This will include a description of data history on loans and deposits required to perform the stress tests, of how the vendor may create any proxies required for data that is not available from the credit union, and any external data used to supplement analysis. The vendor will describe the manner in which it will standardize its analytical approach. The vendor will also describe any customization of credit union data on which it will rely.

Submission materials will describe vendor’s prior experience in performing stress testing under FRB or other banking agency parameters.

The respondent to this RFP must provide materials and information to describe how it will accomplish NCUA’s stress test objective. The vendor must be able to concurrently evaluate multiple credit unions. NCUA expects the first stress tests will be required for five covered credit unions.

## **C. Project Requirements**

*Objective of analysis: To measure impacts to covered credit union capital based on FRB parameters, taking into account material and quantifiable differences between these credit unions by incorporating the knowledge, experience and expertise of the vendor performing the analysis.*

### **1. Project Design**

The Contractor shall be responsible for providing a description of the processes and inputs used and assumed in the preparation of all deliverables. All documentation and reports related to the services in this notice must be provided and communicated to NCUA. Key assumptions used in these analyses must be available to NCUA. Key variables may include, but are not limited to, prepayment speeds, default rates, loss severities, macroeconomic variables such as interest rates and home price appreciation, and deposit behaviour methodologies.

At the outset, the vendor will communicate a timetable of critical interim project completion dates, including the final submission. The vendor will state the framework for evaluating data availability, as well methods and actions for addressing any shortcomings in credit union data. The vendor will define and describe technical processes used for accomplishing the statement of objectives.

## **2. Meetings with Credit Unions**

Vendor will meet with credit union representatives to review and discuss data, assumptions and processes the credit union utilizes, including those relating to:

- Loan underwriting/origination guidelines and practices
- Loan servicing practices and strategies
- Loss provisioning
- Investments performance
- Characteristics of member borrowers and shareholders (depositors)
- Review of historical performance of loan and deposit offerings
- Other material practices and exposures, e.g. CUSO investments

The vendor will take into consideration relevant risk management and reporting materials utilized by credit union management. However, the analysis by the vendor will rely only on historical data that is verifiable.

The vendor will conduct any other meetings with credit union representatives and NCUA staff required to accomplish measurement of the stress test capital of the covered credit union. The vendor will construct standard data templates for completion by the credit unions.

## **3. NCUA Meetings and Delivery Dates**

The vendor will schedule regular meetings with NCUA to provide updates on project schedules, progress reports. The vendor will review interim results with NCUA on scheduled dates.

Final results for the first year are due to NCUA by 4/15/2015 for review. Vendor will meet with NCUA on or before 4/30/2015 to discuss results. Delivery of stress test results by NCUA to individual credit unions will occur on or before 5/31/2015.

## **4. Deliverables**

### **a. Stress Test Written Report**

Vendor will prepare and deliver a written report to NCUA addressing:

- Overview of methodology;
- Key assumptions and analytical approaches used in projecting assets, liabilities and other components required to determine stress test capital;
- Assessment of data integrity and reliability provided to the vendor;
- Results of the stress tests stated as a stress test capital ratio for each credit union, and a summary of key risk drivers for each credit union;
- Sensitivities of stress test results to any key variables; and
- Limitations, caveats, and confidence of stress test capital results.

**b. Additional Analysis of any CU with Stress Test Capital below the Regulatory Minimum**

- Additional analytics as necessary for any CU that fails to meet the minimum Regulatory Stress Test threshold. This analysis will take into account key risk drivers, variables, and sensitivities on which the CU may rely as part of risk assessment that it may perform.

**c. Model Documentation**

Documentation must include

- Model details;
- Key variables and assumptions;
- Model validation results where applicable;
- Supporting calculations and spreadsheets.

**4. CONTRACTOR PERSONNEL**

The Contractor should provide contracting support to include a Program Manager, and any additional key personnel who may be deemed at your discretion. Requirements shall be in accordance with this SOO and applicable Federal and Agency regulations.

**Key personnel:** These are defined as the personnel specified on an individual call issued under the BPA that are considered to be essential to the work the Contractor performs. Prior to diverting any key personnel to other programs, the Contractor shall notify the Contracting Officer reasonably in advance and shall submit justification, including proposed substitutions or replacements, in sufficient detail to permit the Contracting Officer to evaluate the impact on the work the Contractor is obligated to perform hereunder. The Contractor shall not replace any of the key personnel named to work on individual task order(s) without the written consent of the Contracting Officer.

**4.1 Program Manager.** The Contractor shall provide a Program Manager who shall be responsible for all contractor work performed under the BPA.

**4.2** The Program Manager shall be a single point of contact for the Contracting Officer and the Contracting Officer's Representative (COR). It is anticipated that the Program Manager shall be one of the senior level on-site employees provided by the Contractor for the work effort. The name of the Program Manager, and the name(s) of any alternate(s) who shall act for the Contractor in the absence of the Program Manager, shall be provided to the Office of Examination and Insurance as part of the Contractor's proposal. During any absence of the Program Manager, only one alternate shall have full authority to act for the Contractor on all matters relating to work performed under this contract. The Program Manager and all designated alternates shall be able to read, write, speak and understand English. Additionally, the Contractor shall not replace the Program Manager without prior agreement/approval from the Contracting Officer or designated representative.

**4.3** The Program Manager shall be available to the COR via telephone between the hours of 8:00 a.m. and 5:30 p.m., Monday through Friday, and shall respond to a request for meeting, discussion, or resolution of issues or problems within 24 hours of notification.

#### **4.4 Program Manager (Key Personnel):**

**Description of Work:** The Program Manager shall be responsible for ensuring conformity to contractual obligations, establishing and maintaining master plans and schedules. The Program Manager shall perform day-to-day management of overall contract support operations.

**Educational Requirements:** The Program Manager shall have a minimum Bachelor's degree, preferably in one of the following disciplines: business, industrial management, marketing, quantitative methods, or organization and management.

**Experience Requirements:** A minimum of ten (10) years of experience in performing program management support services and/or acquisition support activities or any combination of the two as described in this SOW with a Bachelor's degree, eight (8) years of experience with a Master's degree, or four (4) years' experience with a PhD.

**Additional Required Knowledge and Skills:** In addition to the experience and educational requirements described above, the Program Manager shall possess the following knowledge and skills:

- Proficient in the following Microsoft applications: Word, Excel, PowerPoint, Outlook
- Ability to communicate effectively, both orally and in writing, with senior personnel
- Ability to read and interpret government policy, regulations, and directives and to apply those interpretations fully and legally to all activities described in this SOW.

**4.5 Qualified Personnel.** The Contractor shall provide capable and qualified personnel to perform all requirements and tasks specified in the task orders issued under this contract. Contractor personnel proposed for each labor category must possess the experience, knowledge, expertise, and education to fulfill all the requirements listed for their labor category. Contractor employees supporting task orders shall be able to read, write, speak and understand English fluently, and shall be United States citizens per HSAR 3052.204.

**4.6 Employee Identification.** Contractor employees visiting NCUA and other Government facilities shall wear an identification badge that, at minimum, displays the Contractor name, the employee's photo, name, clearance-level and badge expiration date. Visiting Contractor employees shall comply with all NCUA and Government escort rules and requirements. All Contractor employees shall identify themselves as Contractors when their status is not readily apparent and display all identification and visitor badges in plain view above the waist at all times.

**4.7 Employee Conduct.** The Contractor's employees shall observe and comply with all applicable Federal, Local and Headquarters regulations, policies and procedures (e.g., fire, safety, sanitation, environmental protection, security, flag officer courtesy, "off limits" areas, wearing of parts of military uniforms, and possession of firearms). The Contractor shall ensure

that all contractor employees present a professional appearance at all times, and their conduct does not reflect discredit on the United States, or the NCUA.

**4.8.1** The Project Manager shall ensure Contractor employees understand and abide by NCUA - established rules, regulations and policies concerning safety and security.

**4.8.2 Removing an Employee for Misconduct or Security Reasons.** The Government at its sole discretion may direct the Contractor to remove any contractor employee from NCUA facilities for misconduct or security reasons. Such removal does not relieve the Contractor of the responsibility to provide sufficient qualified staff for adequate and timely service. The Government will provide the Contractor with an immediate written rationale for the removal of the employee through the NCUA Contracting Officer.

**4.9 Conflict of Interest.** The Contractor shall not employ any person who is an employee of the United States Government if that employee could, or would appear to cause a conflict of interest.

**4.10 Key Personnel.** Before replacing any individual designated as Key by the NCUA, the Contractor shall notify the Contracting Officer no less than 15 business days in advance, submit written justification for replacement, and provide the name and qualifications of any proposed substitute(s). All proposed substitutes shall possess qualifications equal to or superior to those of the Key person being replaced. The Contractor shall not replace Key Contractor personnel without written acknowledgement from the Contracting Officer. The Government may designate additional Contractor personnel as Key in each task order issued under the MSA.

**4.11 Security.** Performance of this contract may require the Contractor to gain access to Proprietary Information (includes oral and written communication, data, documentation, material).

**4.12 Nondisclosure.** Unless otherwise subject to a separate nondisclosure agreement which shall remain in effect during the term of this Agreement, NCUA and the Contractor, to the extent of their right to do so, shall exchange such technical data and other information as is reasonably necessary for each to perform its obligations hereunder. Each party agrees to keep any Proprietary Information in strict confidence, to use the same reasonable efforts to protect such information as are used to protect its own Proprietary Information. The foregoing rights, obligations and restrictions as to Proprietary Information shall survive the termination of this Agreement, but in any event, shall terminate three (3) years from the date of termination of this Agreement; provided, however, that obligations relating to a party's software shall continue unless specifically released in writing by the disclosing party.

**4.13 Duty to Protect.** The obligation to protect Proprietary Information shall not apply to any of the following: (1) information that has been or is made available to the public by the disclosing party or by a third party; (2) information which becomes lawfully known or available to the receiving party from a source other than the disclosing party; (3) information which is known to the receiving party independently of the disclosing party; (4) information that was independently developed by the receiving party; and (5) information requested in response to a legal request for information, provided, however, that receiving party shall first give disclosing party notice of the

legal request and provide reasonable assistance legally withholding the release of the information, at disclosing party's expense.

**4.14 Compliance.** The contractor will be required to provide each of its assigned professionals a laptop to be used for each Task Order. The contractor will be required to comply with NCUA IT Security Policies. To assist the Contractor in complying with the confidentiality provisions of the agreement, NCUA will provide the Contractor with electronic copies of four (4) key NCUA internal documents. The Contractor agrees to comply with the provisions of the four (4) documents to the greatest extent possible. The four (4) key NCUA internal documents are:

1. Security of Confidential Information on Laptops – Attachment 1
2. Agency-wide Information Security Policy and Procedures – Attachment 2
3. Security of External Party's Documentation – Attachment 3
4. Breach Notification Policy – Attachment 4

**4.15 Identification/Access Cards.** All Contractor employees working for NCUA shall utilize NCUA's System to apply for a PIV card for their employees that require access to a NCUA or other federally controlled computer information system.

The Contractor shall submit a list of employees to the Contracting Officer's Representative (COR) for the PIV within 3 days after contract award.

The Contractor shall provide such forms to or request such information from Contractor employees that may be necessary for obtaining access credentials. Completed forms and information shall be submitted as directed by the COR. Contractors are responsible for the accuracy and completeness of the information submitted and for any liability resulting from the Government's reliance on inaccurate or incomplete information.

Contractor or subcontractor employees who are declined access credentials are ineligible to perform work that requires a secured clearance under this contract. When an employee with access is no longer performing work under this contract, the Contractor shall notify the COR on the same day the employee stops working and shall deliver the access credentials to the COR within seven (7) calendar days after such notification.