

# **Family First Credit Union**

## **Third Party Vendor Management Policy**

### **Purpose**

In an effort to enhance the services provided to members, the Credit Union often partners with outside third party vendors. These activities include, among other services, data processing, information technology, audit, investment management, and human resources.

Family First Credit Union due diligence review is conducted prior to entering into any agreement with any third party vendor. The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining due diligence policies and procedures to minimize risk of unanticipated cost, legal disputes and asset losses.

### **Guidelines**

#### **Board Responsibility**

This policy and any recommended changes to it shall be approved by the Board of Directors.

#### **Management Responsibility**

Management is responsible for understanding the risks associated with third party relationships and ensuring that effective management of such are in place.

Management will maintain a list of all third party providers, along with services provided by each and the reason for outsourcing the service. Management may delegate due diligence of third party vendors to appropriate staff as warranted, but shall be responsible for reviewing the information gathered and making the final decisions. All due diligence efforts will be documented and provided to the CEO who in turn will maintain these records in a vendor management file.

#### **Risk Assessment**

Prior to engaging in a proposed activity, Family First Credit Union will perform an assessment to determine whether the relationship compliments the Credit Union's overall mission and philosophy. Management will determine whether the proposed activities, related costs, product and services standards, and third-party involvement, are consistent with Family First Credit Union's overall business strategy and risk tolerances. If management does not believe the proposed activity would complement the efforts of the Credit Union, the third-party relationship will not be pursued.

In conducting a risk assessment, the following tasks will be performed:

1. An assessment to identify Family First Credit Union's needs and capabilities.
2. Perform due diligence to identify and select a third party vendor.
3. Review of a written contract that states the duties, obligations, contingencies, and responsibilities of the parties and ensures that third parties maintain adequate internal controls over activities.
4. Develop policies, procedures, and controls to oversee the third party's activities and their performance.
5. Ongoing review of third party performance, including periodic assessments of costs, compliance management, acceptability of service levels, and unforeseen risks.
6. Documentation regarding both the periodic assessment of a third party's performance and the due diligence that the credit union performed to arrive at the assessment.

Further, Family First Credit Union will tailor its risk assessment of the vendor based on the following items:

1. Previous experience with the third party vendor.
2. The relevancy of the risks.
3. Their ability to manage the risks.
4. Whether the service is a one-time service or ongoing.
5. The degree to which a service directly involves the members.
6. Whether the services relate solely to Family First Credit Union's operations, and the critical nature of those operations.
  - a. Periodically review the arrangement, and analyze whether the targeted service levels reflect the expected improvements in operations.
  - b. Reset target service levels as the contract progresses.
  - c. Review the contract annually and consider renegotiation if service levels do not meet expectations.

### **Third Party Vendor Contract Checklist**

Family First Credit Union will assess key risks and options for controlling third party arrangements using a Third Party Vendor Contract Checklist. The form must be completed by the appropriate management overseeing the vendor relationship and submitted for review to the CEO.

The goal of the Third Party Vendor Contract Checklist is to ensure at a minimum the following:

- ✓ The third party vendor is competent and stable, both operationally and financially.
- ✓ The third party vendor has the ability to provide the expected services over the life of the contract.
- ✓ The third party vendor has made complete representations about its activities, and presented accurate reports and materials for our evaluation.

Factors influencing the risk assessment will include the following items:

1. The importance of the function to business of the credit union.
2. The nature of the activities that the third party vendor will perform.
3. Regulatory requirements and guidance for the service affected, including member protection and other compliance obligations.
4. Regulatory requirements and guidance for the types of technologies the third party vendor uses in providing its services.
5. If the third party vendor activities are consistent with the law, ethical standards, and the credit union's policies and procedures.
6. The corporate structure of the third party vendor and the associated limits on liability afforded to incorporated entities.
7. The provider's ability to handle Family First Credit Union's needs with individualized responses and timely attention without significant additional costs. Some considerations are as follows:
  - a. Phone support
  - b. Hardware replacement contracts if vendor's service includes equipment
  - c. Response times and staff to be dedicated to the credit union.
8. Business continuity plan for both the Family First Credit Union and the third party vendor.
9. Contractual obligations and requirements for both the credit union and the third party vendor.
10. Family First Credit Union's ability to perform assessments of the third party vendor activities to evaluate consistency and third party vendor performance on an ongoing basis.

### **Due Diligence in Selecting a Third Party Vendor**

At a minimum, Family First Credit Union will gather at least two proposals for services. Management will review and approve vendor contracts upon completion of the proposal process. Management will provide the CEO with all information gathered for review and final approval.

Typically, due diligence will include analyzing the following criteria:

- ✓ Third party vendor experience
- ✓ Business reputation, complaints, and litigation
- ✓ Staff competence, qualifications, and training
- ✓ Internal controls of records, privacy protection, security, contingency plans, and employee background checks.
- ✓ Sub-contractor reliance to compliance with all regulatory requirements
- ✓ Insurance coverage
- ✓ Legal review – All contracts will be reviewed by Family First Credit Union's legal counsel. At a minimum, third party contracts should address the following:
  - Scope of services
  - Responsibilities of all parties

- Service level agreements addressing performance standards and measures
- Performance reports and frequency of reporting
- Penalties for lack of performance
- Ownership, control, maintenance and access to financial and operating records
- Ownership of servicing rights
- Audit rights and requirements
- Data security and member confidentiality
- Business contingency planning and resumption
- Insurance coverage
- Member complaints and member service
- Compliance with regulatory requirements
- Dispute resolution
- Default, termination and escape clauses.
- ✓ Exit Strategy – investigate and determine whether there is a reasonable way out of the relationship if it becomes necessary to terminate it in the future.
- ✓ Business Model Review – before entering into a third-party vendor agreement, the credit union will investigate and understand the third party's business model – how it provides services to its clients.
- ✓ Cash Flows – understand how cash flows move between all of the parties in the third-party relationship.

#### **Documentation to be included in Vendor Management Files maintained by CEO**

1. Maintain a list of all third party vendor providers and indicate if they are significant or critical.
2. Maintain valid, current, and complete contracts.
3. Retain and present at Board Meetings performance reports received from the third party vendor for significant contracts. This may include audit reports, security reviews, cost reports, and reports indicating compliance with the contract.
4. Prepare and retain regular report to the board, or delegated committee, of the results of the ongoing monitoring activities.
5. Document in the Board of Director's minutes the review of business plans for significant new lines of business or products.
6. Include information on the number of proposals received.
7. Document the procedures used for due diligence.

**Review**

This policy must be reviewed at least annually by the Board of Directors.

Adopted \_\_\_\_\_ Date \_\_\_\_\_

Reviewed \_\_\_\_\_ Date \_\_\_\_\_

Reviewed \_\_\_\_\_ Date \_\_\_\_\_