 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10145
MANAGEMENT	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Contracts and Commitments	PAGE(S)
	Page 1 of 2

I. PURPOSE

All material contracts entered into by management between examinations should be reviewed. The contracts should evaluate financial impact, ensure independence, ensure legal and compliance risk is mitigated and the contract represents a sound business decision.

II. PRIMARY REFERENCES / RELATED REGULATIONS


1. Michigan Credit Union Act:
 - a. [Section 381](#): Disclosure of confidential information
 - b. [Section 401](#): Credit union powers; 401(2)(a) enter into contracts
 - c. [Section 407](#): Credit union service organizations
 - d. [Section 408](#): Automated information processing services
2. [NCUA Supervisory Letter No.07-01: Evaluating Third Party Relationships](#)

III. MINIMUM PROCEDURES

1. Gain an understanding of management's practices related to contracts and other legal commitments.
2. Determine, by inquiry or review of board minutes and review of vendor due diligence tracking, any material contracts recently entered into by the credit union. Review those contracts identified as posing material risk.
3. Assess management's effectiveness in recognizing and controlling risks assumed by entering into contracts with vendors.
4. Assess probable risk to the institution, including potential effects on earnings and net worth.

IV. PROCEDURES TO PERFORM PERIODICALLY

1. Thoroughly review all material contracts and commitments.
2. Review legal opinions obtained by management prior to (or after) entering into contracts. Assess whether identified risks have been satisfactorily considered and controlled by management.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10145
MANAGEMENT	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Contracts and Commitments	PAGE(S)
	Page 2 of 2

V. GENERAL GUIDELINES:

1. Contracts should be in place for all material functions for which the credit union relies on third party vendors, or material sale/purchase agreements. Examples of typical Contracts to be reviewed include:
 - a. Management Contracts;
 - b. Third party vendors (e.g. collection agencies, loan underwriters/servicers or parties to participation agreements);
 - c. Agreements for data processing
 - d. Long-term leases on land, building and/or equipment;
 - e. Contracts for general maintenance or service agreements (if unusual or material);
 - f. Employee (management) contracts to define terms, responsibilities, evaluation functions, and retirement/benefit provisions (if applicable).

2. Contracts should:
 - a. Clearly identify and outline the responsibilities of all parties to the contract.
 - b. Outline recourse for failure to meet those obligations.
 - c. Define the extent of liability being assumed by the credit union.
 - d. Provide protection to the credit union from undue legal/reputation/credit or other risk.
 - e. Contain terms which are clear, factual, and consistent with all other contracts, regulations, credit union policies, etc.
 - f. Demonstrate independence between the parties and appropriate due diligence on behalf of the credit union management.
 - g. Provide for a reasonable cost-benefit relationship, demonstrative of management fiduciary responsibility to the membership.
 - h. Be signed and dated by authorized persons for all parties to the contract.