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I. PURPOSE


The Michigan Credit Union Act (MCUA) Section 401(2)(gg) authorizes the DIFS Office of Credit Unions (OCU) to examine Credit Union Service Organizations (CUSOs) to the same extent as Michigan state-chartered credit unions, if any Michigan state-chartered credit union lends to, invests in, or organizes the CUSO. The MCUA Section 408(2) authorizes OCU to examine and regulate any vendor or subcontractor who has access to any member information.

The risk that third parties can represent to the industry continues to grow, as reliance on third parties (including CUSOs) has become more prevalent in the credit union industry. Cyber-attacks continue to target third parties which can impact numerous financial institutions and other clients. Additionally, risks present in third party operations can result in liability and risk exposure affecting one or more credit unions who utilize their services. Given these risks and the everchanging threat landscape, it is imperative OCU's supervisory activities include structured oversight of CUSO/TSP and other third-party activity. To reduce this regulatory blind spot within the industry, OCU coordinates and performs reviews of CUSOs and third parties which present potential material risk or safety and soundness implications to credit unions.

This policy provides guidance for examining CUSOs, which are defined [by Section 102\(l\)](#) of the Michigan Credit Union Act (MCUA). Examiners must evaluate activities undertaken by the CUSO and the funds invested in or loaned to the CUSO to determine if they pose excessive risk to a Michigan state-chartered credit union, or the credit union industry. Initial and ongoing due diligence on CUSOs may be necessary and/or prudent to mitigate risk.

II. PRIMARY REFERENCES/ REGULATIONS


1. Michigan Credit Union Act:
 - a. [Section 490.102\(l\)](#): Definition of a CUSO
 - b. [Section 490.401](#): Domestic credit union; powers
 - c. [Section 490.407](#): Credit union service organizations
 - d. [Section 490.408](#): Automated Information Processing Services
2. [NCUA Rules and Regulations Part 741.222](#): Requirements for insurance; credit union service organizations.

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III. MINIMUM PROCEDURES

1. **Scheduling:** Through credit union observations, meetings with OCU examination staff, and other data collected, the IT Examination Manager will be responsible for compiling a list of recommended CUSO examinations and submitting such to the OCU Director/Assistant Director for approval.
 - a. This list should be provided at least annually.
 - b. The Director, Assistant Director and IT Examination Manager will consult to determine which entities will be scheduled for examination each year.
 - c. Scheduling may be partially contingent upon coordination with other regulatory agencies such as the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), or others. A CUSO's examination frequency and scope shall be adjusted depending upon the identified level of supervisory concern.

2. **General Scoping:** Scoping shall be customized depending upon risk types, risk levels, industry exposure, and other known factors, but should include appropriate consideration of:
 - a. The composition of the owners (particularly Michigan state-chartered credit unions), and their respective equity interests.
 - b. The number of Michigan state-chartered credit unions with an investment/loan interest in the entity, and their respective investment/loan interests.
 - c. The number of Michigan state-chartered credit unions which could be exposed to risk from the vendor's activities (e.g. compliance risk, reputation risk, credit risk, et al).
 - d. Known or suspected risk levels identified through past credit union examinations or other previous reviews of the third-party entity. Higher risk is present by default if there is an absence of previous examinations which verify/ascertain the presence of low risk.
 - e. Reports for third parties which are Information Technology Service providers should include scoping for and the issuance of Uniform Ratings (FFIEC's URSIT ratings) whenever possible.
 - f. Reports for service providers who could expose credit unions to material compliance risk, will include scoping for and the issuance of Uniform Ratings (FFIEC's Consumer Compliance Rating System) whenever possible.
 - g. Additional risks will be evaluated as applicable. These may include, but not be limited to, credit risk exposure related to underwriting

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practices, collateral risk exposure related to lien placements and/or collections, reputational risk exposure, and exposure to risk of penalties for violations of federal/state statutes and/or broad liability for failing to adhere to consumer protection legislation and disclosure requirements.

IV. ATTACHMENTS