

	A	B	D
2	<b>Debt Cancellation/Suspension Program (DCS)</b>		
3	<b>Introduction and Purpose</b>		
4	<b>Applicability</b>		
5	<b>General</b>	<b>Yes/No/NA</b>	<b>Comments</b>
6	1. Did you review the prior examination report in relation to DCS methodologies, policies, and procedures, etc.?		
7	2. Did you review the latest audit report in relation to the DCS methodologies, policies, and procedures, etc.?		
8	3. Has an independent accountant opined that the financial statements are presented in accordance with GAAP?		
9	4. Did you review the internal audit department's work, if applicable, surrounding the review of the DCS program?		
10	5. Was the prior examination report, latest audit report, CPA's Letter of Deficiencies to Management, CPA's Letter of Material Weaknesses or Reportable Conditions, or internal audit report absent any findings or concerns relating to the DCS program?		
11	6. Has the board of directors ensured that their credit union has controls in place to consistently account for the DCS program and that appropriate board reporting mechanisms are in place?		
12	If answers to all of the above questions are Yes, (or NA for #3 and #4), stop here. If not, further review is indicated. Consider completing the remainder of this questionnaire.		
13	<b>Due Diligence/Third Party Review</b>	<b>Yes/No/NA</b>	<b>Comments</b>
14	1. Has the credit union evaluated the DCS program for consistency with the overall business strategy?		
15	2. Has the credit union considered the possible impact of the DCS program on staffing, net worth, profitability, and member confidence?		
16	3. Does the credit union have contractual liability insurance?		
17	(a) Does the contractual liability policy cover claims for the whole loan balance?		
18	(b) Does the contractual liability policy cover a percentage of the loan balance?		
19	(c) Does the contractual liability policy cover the loan balance after a deductible, stop loss, or catastrophic limit?		
20	4. Does the credit union have an administrative services contract?		
21	5. Did the credit union contact other credit unions using this vendor(s), the better business bureau, or the FTC to determine the vendor's past practices?		
22	6. Did the credit union's attorney review all contracts with the vendor(s)?		
23	7. Did the credit union perform a review of the vendor's financial viability?		
24	8. Does the credit union have procedures to periodically review the financial stability of the vendor(s)?		

	A	B	D
25	<b>Internal Control/Risk Management</b>	<b>Yes/No/NA</b>	<b>Comments</b>
26	1. Have member DCS contract forms and disclosures been reviewed by an attorney to ensure compliance with applicable laws?		
27	2. Do written policies and procedures identify personnel and department responsibilities?		
28	3. Do written policies and procedures describe the internal control system for the DCS including:		
29	(a) Measures to ensure the reliability and integrity of information and compliance with laws, regulations, and internal policies and procedures?		
30	(b) A well-defined loan tracking system that identifies all DCS loans?		
31	(c) Sufficient internal controls?		
32	(d) Clear formal communication between the board, management, and others involved with the DCS program?		
33	4. Does the supervisory committee oversee and monitor the internal controls over the DCS program?		
34	5. Has the credit union's CPA, if any, reviewed the DCS accounting and internal control procedures?		
35	<b>Accounting</b>	<b>Yes/No/NA</b>	<b>Comments</b>
36	1. Do all accounting entries relating to DCS Programs follow Generally Accepted Accounting Principles?		
37	2. Does the credit union have appropriate accounting procedures in place?		
38	(a) Are member DCS fees appropriately accounted for?		
39	(b) Are expenses recorded in the appropriate time period?		
40	(c) Are appropriate refund procedures in place?		
41	3. Are appropriate DCS accounting and management reports provided to senior management and the board on a periodic basis?		
42	<b>Overall Assessment</b>	<b>Yes/No/NA</b>	<b>Comments</b>
43	1. Does the credit union have a well thought out, well managed Debt Cancellation/Debt Suspension Program?		
44	2. Is the DCS program structured to mitigate risk to the net worth adequacy of this credit union?		

**Cell:** A3

**Comment:** NCUA Rules and Regulations Part 721 includes debt cancellation and suspension agreements (DCS) as a permissible activity. A court has established that a DCS is not an insurance product governed by state insurance laws. As a contractual agreement between the credit union and the borrower, which lacks a third-party provider of insurance, credit unions face a potentially increased risk. This questionnaire is provided to assist field staff in the evaluation of risk in DCS programs.

**Cell:** A4

**Comment:** NCUA's Office of General Counsel has determined that (for federal credit unions) insurance coverage is not required for the at-risk balance of loans covered by these programs. Credit unions do have the option of insuring all or part of the risk. Regulations and requirements may vary for state-chartered credit unions.

**Cell:** B5

**Comment:** A "No" answer may indicate the need to expand the scope of the review.

**Cell:** D5

**Comment:** Comments should be provided for all "No" answers.

**Cell:** A6

**Comment:** If the credit union has chosen to accept some portion of the risk from its DCS programs, are risk mitigation efforts realistic in terms of the program coverage.

**Cell:** A9

**Comment:** State laws can be substantially different as they relate to DCS programs. Management should have an internal review process to assure compliance with specific state requirements.

**Cell:** A11

**Comment:** Due to the complexity of DCS programs, CPA or other professional accounting guidance and actuarial expertise should have been used to establish the program. Internal control measures should have been developed at the same time, and there should be a formal review and reporting process to monitor results.

**Cell:** A16

**Comment:** If the credit union is relying on a third party to cover its liability, CU management must perform some due diligence on their insurance company. See LTCU 01-CU-20, Due Diligence Over Third Party Providers, for more information.

**Cell:** A20

**Comment:** The credit union may contract with the insurance company or another third party to provide administrative services such as claims processing, accounting, etc.

**Cell:** A26

**Comment:** Regulation Z specifically addresses DCS programs. According to 226.4(d)(3), fees for DCS programs can be excluded from a finance charge if the following conditions are met:

- 1) Written disclosures are provided to the consumer which state the DCS is not required by the creditor to obtain the loan,
- 2) The fee or premium for the initial term of coverage is disclosed, and the term of coverage is disclosed if the term of coverage is less than the term of the transaction, and
- 3) The consumer signs or initials an affirmative written request for coverage.

**Cell:** A36

**Comment:** GAAP provides that loans in "suspension" status should be accounted for both in delinquency reporting and when making a determination of the adequacy of the allowance for loan loss account.

GAAP provides that costs incurred to issue DCS contracts should be matched against revenue through deferral and amortization where material.