

Consumer Lending Audit Program
1/31/12

Audit Procedure	By:	Reference/Comments
<p>AUDIT OBJECTIVES</p> <p>The scope of the Consumer Lending Audit will be the following:</p> <ul style="list-style-type: none"> • Direct Consumer Loans, and related regulatory compliance; • Loan Servicing; • Collections <p>Note: Residential Mortgages & Home Equity Loans are covered in separate audits.</p> <p>AUDIT PROCEDURES</p> <p>Preliminary</p> <ol style="list-style-type: none"> 1 Review and update PAF as necessary. 2. Follow up on prior audit findings (from IAD, external and regulatory exams) for proper management follow up. <p>Internal Controls</p> <ol style="list-style-type: none"> 1. Obtain and read job descriptions, written policies & procedures, regulatory updates, etc; update audit program as needed. <ol style="list-style-type: none"> a. Determine adequacy of written lending policies, and answer questions 1 & 2 of the <i>Consumer Credit ICQ</i> and <i>Consumer Lending ICQs</i>. 2. Through testwork and discussions with management, complete <i>Consumer Credit ICQ</i> and <i>Consumer Lending ICQ</i>. 3. Note any control weaknesses 4. Via test work throughout the audit, determine if there is a written P&P for each process, and that written P&Ps are being adhered to. <p>General Ledger</p> <ol style="list-style-type: none"> 1. Obtain direct loan G/L reconciliations as of the audit date. <ol style="list-style-type: none"> a. Review selected reconciliations of detailed loan subsidiary records and agree to the general ledger. Ensure that signatures of preparer and approver are present. 		

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<p>Documentation Review</p> <p>1. Using system reports, select a sample of 25 loans that were opened since the prior audit date. The sample should encompass all types of direct loans including personal, autos, boats, mobile homes, unsecured loans, recreational vehicles, motorcycles, stocks & bonds, single payment, etc.</p> <p>2. For each loan selected, perform the following:</p> <ul style="list-style-type: none"> a. Ensure that the application was completed and signed by the borrower. The purpose of the loan should be clearly stated on the app. b. Ensure that information on the system agrees to that on the loan documents. c. Determine the security agreement, note, and disclosure statement have been properly signed and dated by the borrower. Compare the description of the secured property to the title. d. Determine there is evidence of loan approval within policy, including lending limits. e. Determine how the loan proceeds were disbursed to the member. Trace the transaction. f. If the loan was made to a business, determine the proper resolutions or agreements are on file. Note and investigate any discrepancies between the note and the resolution. g. Determine that the loan was approved before the loan was closed and funded. h. Determine if CU is listed as the first lien holder to the secured property. i. Determine if the title has been recorded with the proper government agency. 		

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<p>j. Ensure that the rate is within policy and regulatory guidelines.</p> <p>k. Recalculate the APR to ensure it is within Reg Z accuracy guidelines.</p> <p>l. Determine the insurance policy is current, coverage is adequate, and that CU is listed in the loss payable clause.</p> <p>m. Ensure there is a current credit report.</p> <p>3. Determine if there is an adequate documentation quality control review performed. Note what type of review is being performed to ensure APR accuracy; spot test for adherence.</p> <p>4. Ensure that CU Loan Policy was adhered to in all loans reviewed above.</p> <p>Regulatory Compliance</p> <p>1. Through discussion and testwork, determine if loan staff has adequate knowledge of applicable regulations, and has received sufficient training.</p> <p>2. Review training documentation of applicable personnel to ensure that they have been trained in Regs. Z, B, etc .</p> <p>3. Document compliance program in place, and opine if it adequately provides controls for adherence to applicable regs.</p> <p>4. For loans in doc review above, complete applicable compliance questionnaire from ICQ drive.</p> <p>5. Document controls over stock secured loans; ensure compliance with Regulation U, using Reg. U worksheet.</p> <p>5. Select a sample of 20 denied loans and complete <i>Adverse Action Worksheet</i>.</p> <p>6. Complete <i>Loan Servicing Compliance ICQs</i>.</p>		

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<p>Loan Activity</p> <p>1. Review summary of loan activity during the period. Examine activity with respect to very large loans or loans made with unusual interest rates, repayment periods, or fees.</p> <p>2. Select a sample of loan payoffs made during the audit period:</p> <ul style="list-style-type: none"> a. Verify the correct application of proceeds to principal, interest, prepayment penalties, etc. b. Verify that all pertinent legal documents were returned to the member. <p>Past Dues and Charge Offs</p> <p>1. Select delinquent loans using the monthly past-due report as a source; review the loan reference/collections report. Discuss with the collections supervisor the status of the accounts.</p> <p>2. For loans listed as being repossessed, determine disposition of each item.</p> <ul style="list-style-type: none"> a. Were uncollected deficiencies properly approved and charged off? b. Were excess funds, if any, resulting in the disposal of the collateral returned to the borrower, less fees, interest, and cost? <p>3. Obtain loan exception reports, noting any uncollected late fees and inspect proper documentation for subsequent payment or waived late fees. All waived fees should indicate why they are being waived and also should be approved by a supervisor.</p> <p>4. Review delinquency reports to determine existence of uncollectible loans. From collectors and/or loan officers determine why loans have not been charged off.</p>		

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<p>5. For loan charge-offs:</p> <ul style="list-style-type: none"> a. Determine that loans charged off during the period were properly approved. b. Verify that subsequent collection efforts are in accordance with policy. c. Determine that designated employees control subsequent payments on loans charged off. d. Obtain the charge-off report dated as of the audit date, and agree to the amount charged off per general ledger. Ascertain that discrepancies are explained and approved. e. Ensure that charge offs are being reported to the Board in sufficient detail. <p>6. Complete <i>Collections ICQ</i>.</p> <p>7. Compare delinquency and charge percentages to those of past periods; discuss material fluctuations with management.</p> <p>Board Reports</p> <ul style="list-style-type: none"> 1. Review most recent Board report package. 2. Compare to system reports and review for evidence of suppressed information. 3. Opine as to whether there are any items which should be included in the package. <p>Skip-A-Pay</p> <ul style="list-style-type: none"> 1. Document controls over skip-a-pay program. 2. Review a sample of such transactions, to ensure adherence to written P&P's. 3. Determine effect, if any, on delinquencies and/or charge offs. 		

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<p>Collateral Controls</p> <ol style="list-style-type: none"> 1. Through observation and inquiry, document controls over loan files and negotiable collateral. 2. Note whether or not these items are sufficiently locked and kept in a fireproof area. 3. For negotiable collateral, ensure that: <ol style="list-style-type: none"> a. Dual control access is in place; b. A log is kept documenting access to the collateral; c. Members are required to acknowledge in writing receipt of released collateral. <p>Credit Cards</p> <ol style="list-style-type: none"> 1. Document and evaluate CU's procedures for members requesting credit cards. 2. Obtain and read the contract between CU and credit card vendor. 3. Based on CU's role, compliance test as needed. 4. Complete <i>Credit Card Lending ICQ</i>. <p>Fair and Accurate Credit Transactions Act of 2003 (FACTA)</p> <ol style="list-style-type: none"> 1. Via discussion with management and/or review of written policies & procedures, determine how management has implemented controls to comply with FACTA. 2. Determine if staff has adequate knowledge of FACTA. 3. Complete the <i>FACTA ICQ, Error Resolution FCRA Checklist & Account Servicing: FCRA Checklist</i>. 		

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<p>Servicemembers Civil Relief Act (SCRA)</p> <ol style="list-style-type: none"> 1. Via discussion with management and/or review of written policies & procedures, determine how management has implemented controls to comply with SCRA. 2. Determine if staff has adequate knowledge of SCRA. 3. Complete the <i>SCRA Checklist</i>. <p>Sub-Prime Lending</p> <ol style="list-style-type: none"> 1. Via discussion with management and/or review of written policies & procedures, determine how management has implemented controls for sub-prime lending. 2. Complete <i>Sub-Prime Lending ICQ</i>. <p>Consumer Leasing</p> <ol style="list-style-type: none"> 1. Document Controls over Consumer Leasing. 2. Request and receive general ledger accounts for all leasing programs. <ol style="list-style-type: none"> a. Ascertain that the accounts have been reconciled. b. Trace any outstanding items and report. 3. Review the trial balance account of lease payments and balance to the general ledger. Trace any discrepancies. 4. Review delinquent leases and select a sample of these accounts. Reconcile these accounts to source documents. 5. Review charged-off accounts for proper collection efforts. 6. Verify closed (paid-off) leases for accuracy. Trace to source documents. 7. Review all lease extensions for propriety and trace to source documents for proper approval. 		

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<p>8. If required in your state, verify that a notice to cosigner is given to each person who will be liable on the lease contract, unless the persons are married to each other.</p> <p>9. If required in your state, provide the notice in English and Spanish.</p> <p>10. For a sample of leases, complete <i>Consumer Leasing Worksheet</i>.</p> <p>11. Assess compliance by completing <i>Reg M ICQ</i>.</p> <p>Servicemembers Civil Relief Act (SCRA)</p> <p>1. Via discussion with management and/or review of written policies & procedures, determine how management has implemented controls to comply with SCRA.</p> <p>2. Determine if staff has adequate knowledge of SCRA.</p> <p>3. Complete the <i>SCRA Checklist</i>.</p> <p>User Access</p> <p>1. Obtain user access for all staff.</p> <p>2. Ensure that access is consistent from position to position.</p> <p>3. Ensure that access is appropriate for position level</p> <p>4. Ensure that access provides adequate separation of duties.</p>		