

MULTIREGIONAL DATA PROCESSING SERVICER PROGRAM (MDPS)

CHAPTER 6

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Large multiregional data processing servicers (MDPS) with data centers located in different geographic regions pose a systemic risk to the financial industry should one or more fail. Since these companies service banks, thrifts and credit unions, the FFIEC Task Force on Supervision has determined that it is more effective and efficient to conduct one interagency IS examination of large servicers instead of several separate data center examinations by different member agencies. Interagency IS examinations provide a single examination report for the servicer management and the board of directors. The program also facilitates better communication among regulatory agencies and servicer management.

An organization is considered for the MDPS program when it processes:

- Major applications for a large number of financial institutions that are regulated by more than one agency thereby posing a high degree of systemic risk.
- Work from a number of data centers located in different geographic regions. Generally, the total assets serviced are more than \$20 billion.

Prior to September 30 each year, the FFIEC IS Subcommittee of the Task Force on Supervision publishes a schedule of MDPS examinations designating the servicer, the date of the examination, and the lead agency for the following year(s). This schedule is distributed by the IS Subcommittee agency representatives to their respective regional/district offices.

The following MDPS examination guidelines supplement the policies and procedures contained in the FFIEC SP-1: Interagency IS Examination, Scheduling and Distribution Policy (See Chapter 25 for additional information).

RESPONSIBILITIES OF LEAD AGENCIES

A lead agency is selected for each MDPS

examination by the FFIEC IS Subcommittee. It administers the MDPS examination on behalf of all participant FFIEC member agencies. The MDPS program represents a cooperative arrangement among member agencies for the achievement of shared common supervisory goals and objectives. All member agencies participate in key decisions on MDPS examinations through the FFIEC IS Subcommittee. For example, involved member agencies participate in the selection of vendors entering/leaving the MDPS program, approval of the supervisory strategy and scheduling of examinations, selection of sites for examination, and involvement in key meetings with management and the boards of directors. The lead agency will normally conduct two consecutive examinations, after which the "lead" will rotate to another agency. The FFIEC member agency selected as the lead agency generally will assign the responsibility for the examination to the appropriate district/regional office in which the servicer headquarters is located.

The MDPS EIC is responsible for including the requirements of participating agencies in the supervisory strategy and scope of supervisory activities, leading the on-site examination, assigning the ratings, writing the ROE, and communicating the status of the examination to participating agencies and follow-up. As overall lead of the examination, the MDPS EIC must work closely and communicate frequently with appropriate representatives of participating agencies including Washington, district/region, and field personnel. The FFIEC IS Subcommittee is responsible for providing direction and guidance to the overall MDPS program.

The lead agency assigns the EIC for the MDPS examination (MDPS EIC). Lead agencies should coordinate staffing assignments with the agency that is expected to head the next examination. This ensures that the MDPS EIC for the next examination is familiar with the entire MDPS operation by participating in the current

examination. The MDPS EIC must identify risk, prepare the supervisory strategy, set the scope of the examination, assign the ratings, write the ROE, and communicate the status of the examination to participating agencies.

GENERAL PROCEDURES

Frequency of MDPS Examinations

The frequency of examinations for MDPS data centers is the same as that listed for supervised service bureaus. Their ongoing condition should be monitored between examinations through periodic visitations and progress reports. This information should be coordinated with the FFIEC IS Subcommittee.

Pre-Examination Procedures

The pre-examination review is conducted by the MDPS EIC to determine the scope of the overall examination, identify resource requirements, schedule events, and determine the data centers to be examined. At a minimum, the pre-examination scope document should provide details on the organization's corporate history, corporate and organizational structure, scope of the upcoming examination, data centers included in the examinations, and examiner requirements.

The pre-examination review may include meetings with MDPS management to discuss changes that have taken place since the prior examination, or that may occur in the near future. The appropriate agency's Washington office should be informed of any problems serviced institutions may experience with an MDPS servicer.

Scope of Examination

The MDPS EIC develops the scope of the examination during the pre-examination review and selects the data centers to be examined. Findings from data centers operating under a facilities management contract should be considered in the examination findings, but not included in the ROE. The scope document for all MDPS examinations is presented by the lead agency's Washington office to the FFIEC IS Subcommittee for approval.

The scope document should be completed by the lead agency at least 90 days prior to the target date for the headquarters examination, except when a 120-day lead time is requested, because of the size and complexity of the examination. The agency's Washington office will distribute the examination scope document to the other regulatory agencies.

Time Frames

The MDPS EIC sets the time frames for examining the data centers and for the submission of reports. Subsidiary data center examinations should generally not begin more than 60 days prior to the target date of the headquarters examination. The completed reports should be submitted to the MDPS EIC for consolidation prior to the start of the headquarters examination.

Presentation of Findings and Recommendations

The MDPS EIC will notify agency Washington office staff of the date, time, and location of the presentation of examination findings and recommendations to management of the MDPS. Each participating agency will be able to review the examination findings and be represented at the presentation. However, the number of participants at the presentation may be limited by the lead agency.

Normally, MDPS examination findings are presented first to senior management and then to the board of directors. The agency in charge of the examination should allow senior management and the board a maximum of 45 days to respond following their receipt of the ROE.

Workpapers and Workprograms

Workpapers and workprograms will be retained in the respective offices of the MDPS EIC and lead examiners for servicer data centers. The lead examiner for each data center must review work papers to ensure that the examination findings are accurate and well documented. The MDPS EIC is responsible for the preparation and accuracy of the MDPS examination report.

REPORT PREPARATION AND DISTRIBUTION

Report Preparation

A consolidated report of examination will be prepared by the lead agency. The report should give an overall view of the organization and not each individual data center comprising the MDPS. However, the relative strength of each data center should be evaluated and rated. The ROE should contain an assessment of the major risks to the institutions serviced by the MDPS organization, recommendations for reducing or eliminating those risks, and management's responses to the findings and recommendations. The ROE should be prepared following the guidelines in this Handbook (See Chapter 5 for additional information). A list of serviced institutions should be included in the administrative section.

The subsidiary data center examination reports should be summarized and consolidated in the corresponding sections of the final report. A separate subsidiary data center report may be issued with the approval of the MDPS EIC, lead agency, and other regulatory agencies. Deviations from the consolidated report format should be approved by the agency's Washington office and by the other participating FFIEC member agencies.

Rating

Each MDPS examination will be assigned one set of performance ratings and one composite rating

based upon the overall condition of its entire operation. The MDPS ratings will follow the Uniform Interagency Rating System - FFIEC SP-2 (See Chapters 5 and 25 for additional information). Each MDPS subsidiary data center requires a separate rating. These ratings are not reported in the open section of the MDPS ROE; however, they are included in the administrative section.

Recommendations

At the end of the examination, the MDPS EIC will provide recommendations on resource requirements and the scope of subsequent examinations. These recommendations will assist in planning future MDPS examinations.

Distribution

The lead agency's Washington staff distributes the final MDPS report of examination. The MDPS consolidated report should be sent to the appropriate Washington office for review prior to its distribution. The final MDPS report is distributed to the board of directors of the servicer by the Washington office. The report is also distributed to the FFIEC IS Subcommittee members for distribution to their respective agency district/regional offices. Some agency policies also call for further distribution to appropriate state supervisory agencies and serviced financial institutions.