

OVERDRAFT PROTECTION PROGRAMS

Core Analysis Procedures

Examiners are to consider these procedures but are not expected to perform every procedure at every institution. Examiners should complete only the procedures relevant for the institution's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures not included below. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

References

- *Joint Guidance on Overdraft Protection Programs (FRB: [SR 05-3 / CA 05-2](#); FDIC: [FIL-11-2005](#))*

Considerations and Background

Automated overdraft protection programs (ODP), also referred to as bounced-check protection or overdraft protection, are credit programs offered by institutions to transaction-account (typically deposit account) customers as an alternative to traditional check-credit and ad hoc programs for covering overdrafts. When completing this module, refer to the February 2005 Interagency Guidance on Overdraft Protection Programs for additional information. This module focuses on safety and soundness considerations and does not address consumer protection considerations.

Findings and Conclusions

Document findings and conclusions here, and include a summary of these findings and conclusions in the appropriate Primary or Supplemental modules.

Preliminary Review

- 1. Identify previous concerns by reviewing prior examination reports, file correspondence (including consumer complaints), and audits.**
- 2. Develop a preliminary view of financial trends. Review financial statements and monitoring reports or program reviews conducted since the prior examination to identify material factors (levels, changes, or trends) that may require analysis or help in scoping this review.**
- 3. Determine the primary responsibilities of the board of directors, board committees, and executive management relating to overdrafts.¹**

¹ Through discussions with management or by reviewing applicable policies.

4. Determine whether management performs appropriate due diligence of third-party vendors providing overdraft protection services or products prior to entering contracts and periodically thereafter.²
5. Determine the type(s) and volume of accounts with ODP.
Policy Considerations
<p>6. Determine whether the bank has adopted, and updates as appropriate, written policies and procedures to address the credit, operational, legal, and other risks associated with ODP. Appropriate policies and procedures generally address the following:</p> <ul style="list-style-type: none"> • Account eligibility standards • Well-defined and properly documented dollar-limit decision criteria • Time frames when account holders must pay off overdraft balances • Suspension of overdraft protection services when the account holder no longer meets the eligibility requirements • Guidelines addressing non-repayment of an overdraft • Charge-off procedures • Customer usage monitoring
7. Review the overdraft charge-off policy. Appropriate practices generally include charging off overdraft balances when considered uncollectible, but typically no later than 60 days from the date first overdrawn.
8. Determine whether the institution’s counsel reviewed the overdraft program's compliance with federal and state laws prior to implementation. Determine whether legal risks are monitored periodically to ensure ongoing compliance.
Information and Communication Systems
9. Determine whether managerial reports are timely and provide sufficient information to enable management to identify, measure, and manage overdraft protection levels, profitability, delinquencies, and overall credit performance.

² Refer to the Third Party Risk ED Module for additional information.

10. Verify that management accurately reports overdraft balances, income, losses, and unused commitments on ODPs in the Call Report.
Identifying, Monitoring, and Reserving for Credit Risk
11. Determine whether management monitors overdraft-protection accounts.
12. Evaluate management's ability to properly identify account holders who may pose undue credit risk.
13. Assess ODP policy adherence and risk-management practices.
14. Verify that the methodology used to estimate losses from ODPs is appropriately documented.³
End of Core Analysis.

³ Refer to the applicable Allowance for Loan and Lease Losses (ALLL) or Allowance for Credit Losses (ACL) guidance for further discussion. ACL replaces the term ALLL for those banks that adopted ASU 2016-13.