 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10330
LENDING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Courtesy Pay (Overdraft/Bounce Protection)	PAGE(S)
	Page 1 of 2

I. PURPOSE


Courtesy Pay advances are loans and must be reported and accounted for as loans. Examiners must evaluate Courtesy Pay programs to determine the amount of risk present, compliance with state and federal regulations and the type of monitoring management completes to mitigate risk.

II. PRIMARY REFERENCES

1. [NCUA Letter to Credit Unions 05-CU-03](#)
2. [NCUA Rules & Regulations 701.21 \(c\)](#)
3. [AIRES Overdraft \(Bounce Protection\) Questionnaire](#)
4. [Regulation Z \(Truth in Lending Act\)](#)

III. MINIMUM PROCEDURES

1. Determine if the Courtesy Pay policy addresses the following:
 - a. Clear guidance for program administration and responsible parties.
 - b. Timeframes for collecting and charging off Courtesy Pay balances. Negative balance accounts must be charged off no later than 60 days since first overdrawn (unless converted to a loan, in which case [Regulation Z](#) disclosure may be required).
 - c. Procedures to allow members to opt-out of the program. Member consent procedures must be compliant with applicable regulation.
2. Validate collection procedures for Courtesy Pay accounts:
 - a. Review Courtesy Pay balances to determine whether any accounts have exceeded the maximum allowable negative balance duration.
 - b. Evaluate the adequacy of controls designed to prevent program abuse, as defined by the credit union and relative to their risk tolerance level.
3. Verify Courtesy Pay balances are accurately reported on the Call Report:
 - a. All Courtesy Pay balances must be included as Unsecured Loans/Lines of Credit and Share Drafts on the Call Report.
 - b. Ensure unused commitments relative to the program are reported.
 - c. Ensure any related reserve amounts are included in the Allowance for Loan and Lease Losses (ALLL).
 - d. Ensure charge offs and recoveries from Courtesy Pay are accurately reported in the year-to-date Loan Charge Offs and Loan Recoveries sections.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10330
LENDING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Courtesy Pay (Overdraft/Bounce Protection)	PAGE(S)
	Page 2 of 2

4. Review the Courtesy Pay fee structure:
 - a. If the credit union charges a Courtesy Pay fee and a separate NSF fee, [Regulation Z](#) disclosure requirements may be triggered.
 - b. If only a Courtesy Pay fee is assessed, but it is greater than the credit union's NSF fee, [Regulation Z](#) disclosure requirements may be triggered.
5. Review and determine the reasonableness of established limits (per member maximum, overall Courtesy Pay program limits, etc.).
6. Review Courtesy Pay accounting to ensure:
 - a. Fees are reversed prior to charging off balances.
 - b. Balances are charged off to the ALLL.
 - c. Recoveries from charged off balances are posted to the ALLL.
7. Identify and review the impact of unused commitments in relation to the Courtesy Pay program.
8. If the Courtesy Pay program is serviced by a 3rd party:
 - a. Evaluate management's due diligence to ensure appropriate action was taken to identify, measure, monitor, and control related risk.
 - b. Ensure a fully executed contract is in place, which outlines the responsibilities of both parties.