

Safety and Soundness

Capital
Adequacy
(C)

Asset
Quality
(A)

Management
(M)

Earnings
(E)

Liquidity
(L)

Sensitivity to
Market Risk
(S)

Other
Activities
(O)

Deposit-Related Credit

Version 3.0, March 2020

Contents

Introduction.....	1
Types of Deposit-Related Credit	1
Check Credit	1
Overdraft Protection.....	2
Deposit Advance Products	3
Other Products and Services	4
Risks Associated With Deposit-Related Credit	4
Strategic Risk	5
Credit Risk	5
Operational Risk	6
Compliance Risk.....	6
Reputation Risk.....	9
Liquidity Risk	10
Risk Management	10
Management and Supervision.....	10
Capital	11
Marketing	12
Underwriting and Account Eligibility Criteria	12
Monitoring and Reporting.....	13
Ongoing Monitoring and Account Management	13
Regulatory and Financial Reporting	13
Portfolio Quality	14
Delinquencies.....	14
Classification and Charge-Off	14
Third-Party Risk Management.....	15
Examination Procedures	17
Scope.....	17
Functional Area Procedures	20
Conclusions.....	34
Internal Control Questionnaire for Check Credit.....	36
Verification Procedures	40
Appendixes.....	41
Appendix A: Sample Request Letter	41
Appendix B: Abbreviations	44
References	45

Introduction

The Office of the Comptroller of the Currency's (OCC) *Comptroller's Handbook* booklet, "Deposit-Related Credit," is prepared for use by OCC examiners in connection with their examination and supervision of national banks, federal savings associations, and federal branches and agencies of foreign banking organizations (collectively, banks). Each bank is different and may present specific issues. Accordingly, examiners should apply the information in this booklet consistent with each bank's individual circumstances.¹ When it is necessary to distinguish between them, national banks, federal savings associations, and covered savings associations are referred to separately.²

Banks may offer customers a variety of small-dollar, unsecured credit products and services that are related to their deposit accounts. These deposit-related credit (DRC) products and services generally take one of three forms: check credit (CC), overdraft protection (ODP), and deposit advance products (DAP). Examiners should be aware that laws, regulations, and supervisory guidance referenced in this booklet may not apply to all DRC products and services.

In accordance with the OCC's risk-based supervision approach, examiners use the core assessment in the "Community Bank Supervision," "Federal Branches and Agencies Supervision," or "Large Bank Supervision" booklet of the *Comptroller's Handbook* when evaluating a bank's credit risk and asset quality. This booklet contains expanded procedures for evaluating DRC.

Types of Deposit-Related Credit

Check Credit

CC is defined, for purposes of this booklet, as the granting of unsecured revolving lines of credit to customers. Banks provide CC products and services by three basic methods:

- **Overdraft line of credit:** This is the most common method. The bank automatically transfers funds from an existing line of credit to the customer's demand deposit account

¹ Pursuant to Title X of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd–Frank), the Consumer Financial Protection Bureau (CFPB) is responsible for examining banks with assets over \$10 billion for compliance with Federal consumer financial laws (as that term is defined in Title X). Refer to the "Bank Supervision Process" and "Compliance Management Systems" booklets of the *Comptroller's Handbook* for more information.

² Generally, references to "national banks" throughout this booklet also apply to federal branches and agencies of foreign banking organizations unless otherwise specified. Refer to the "Federal Branches and Agencies Supervision" booklet of the *Comptroller's Handbook* for more information regarding applicability of laws, regulations, and guidance to federal branches and agencies. Certain federal savings associations may make an election to operate as a covered savings association. For more information, refer to 12 CFR 101, "Covered Savings Associations" and OCC Bulletin 2019-31, "Covered Savings Association Implementation: Covered Savings Associations."

when a check or payment is presented that would cause the customer's account to be overdrawn. Transfers normally are made in stated increments, up to a bank-approved maximum line of credit, and the customer is notified that the funds have been transferred.

- **Cash reserve:** The customer requests that the bank transfer funds from an existing line of credit to the customer's demand deposit account. To avoid overdrawing the account, the customer requests the funds transfer before negotiating a check or payment against the demand deposit account.
- **Special draft:** This involves the customer negotiating a special check drawn directly against an existing line of credit, such as a credit card. Demand deposit accounts are not affected because no funds enter or leave a demand deposit account.

In all three CC methods, the bank periodically provides the customer with statements of account activity. The customer's required minimum payments are computed as a fraction of the account balance on the cycle date and are usually made by automatic charges to the demand account. Refer to the "Risk Management" section of this booklet for details.

Banks should have policies and procedures for CC products and services that include eligibility or underwriting criteria to obtain the product or service.

Overdraft Protection

Many banks offer ODP to pay customers' checks and allow other overdrafts when there are insufficient funds in the account. Common names for ODP are automated overdraft protection, bounced check protection, and courtesy overdraft protection. These are typically automated services provided to transaction account customers as alternatives to a traditional overdraft line of credit.

In most cases, customers who meet a bank's eligibility criteria may be enrolled in ODP; therefore no additional underwriting is completed at enrollment. Most banks do review individual customer accounts periodically to determine whether the customer continues to qualify for the service and whether the amount of ODP coverage provided continues to be appropriate. Automation is typically used to apply specific bank criteria for determining whether to honor overdrafts and to set limits on the amount of ODP coverage provided. Some banks may supplement their ODP automated systems, however, by allowing individual officers or employees to approve overdrafts on a case-by-case basis. Many banks inform customers that payment of an overdraft is discretionary on the banks' part, and deposit account agreements typically disclose that the banks have no legal obligation to pay any overdrafts.

Some banks may extend the ODP to non-check transactions including account withdrawals made at automated teller machines (ATM), purchases using a debit card, pre-authorized automatic debits from a customer's account, automated clearing house (ACH) transactions, telephone-initiated funds transfers, or online banking transactions. Banks must provide consumers with the right to opt in, or affirmatively consent, to the bank's ODP for ATM and one-time debit card transactions (12 CFR 1005.17(b)). Notice of the opt-in right must be

provided, and the consumer's affirmative consent obtained, before fees or charges may be assessed on the consumer's account for paying such overdrafts.

Fees vary by bank for ODP services and are subject to change. Banks typically charge a flat fee each time an overdraft item is paid, although some banks have a tiered fee structure and charge higher fees as the number of overdrafts increases. Banks commonly charge the same amount for paying a check or an ACH overdraft as they would if they returned the item unpaid.

National banks are authorized to provide overdraft credit relating to commercial demand deposit accounts under 12 USC 24(Seventh). A federal savings association also may extend overdraft credit. All banks are subject to the lending limitations of 12 CFR 32. Overdraft credit extended by a federal savings association relating to commercial demand deposit accounts, however, is subject to the statutory limit on commercial loans, as set forth in the Home Owners' Loan Act (HOLA) (12 USC 1464(c)(2)(A)) and regulations (12 CFR 160.30, endnote 19). Covered savings associations are not required to comply with the lending limits in HOLA and the implementing regulation, 12 CFR 160.30. Covered savings associations must comply with 12 USC 24(Seventh) and continue to comply with 12 CFR 32. With certain exceptions, a bank is prohibited from paying an overdraft of an executive officer or director.³

The interagency Joint Guidance on Overdraft Protection Programs⁴ and OCC Bulletin 2010-15, "Overdraft Protection: Opt-In Requirements and Related Marketing Issues," apply to bank ODP. Laws, regulations, and supervisory guidance pertaining to ODP are subject to change, and bank management, directors, and examiners are encouraged to stay informed and up to date. Existing regulations cover a variety of topics related to overdrafts, such as disclosures concerning fees, account-opening disclosures, and advertising rules.

Deposit Advance Products

A DAP is a product offered to customers maintaining a deposit account, reloadable prepaid card, or similar deposit-related vehicle, with recurring deposits, at a bank. The bank provides a credit feature that allows the customer to take out a loan in advance of the customer's next direct deposit. The advance is typically based on a history of the customer's recurring deposits. The advance may be offered as an open-end line of credit or as a closed-end loan. Specific details of DAPs vary among banks and may vary over time. Historically, banks offering DAPs incorporate some or all of the following general characteristics.

- **Cost:** The cost is based on a fee structure, not an interest rate. Advances are made in fixed dollar increments and a flat fee is assessed for each advance. For example, a DAP may be structured so that a customer may obtain advances in increments of \$20 with a fee of \$10 per every \$100 advanced.

³ Refer to the "Insider Activities" booklet of the *Comptroller's Handbook* and 12 CFR 215.4(e), "Overdrafts."

⁴ Refer to OCC Bulletin 2005-9, "Overdraft Protection Programs: Interagency Guidance."

- **Eligibility and loan limits:** A customer is typically eligible for a DAP if the deposit account has been open for a certain period (depending on the bank’s policy) and the customer receives recurring deposits. Banks generally require that a minimum sum be directly deposited each month for a certain period for the customer to be eligible for a DAP. The minimum deposit and time period may vary by bank. The maximum dollar amount of the DAP generally is limited to a percentage or amount of the recurring deposit.
- **Creditworthiness:** Banks use various methods of evaluating the customer’s creditworthiness, which may include reviews of the amount and frequency of deposits, as well as other information.
- **Repayment:** Repayment of the deposit advance and associated fee(s) generally occurs through a preauthorized electronic payment from subsequent deposits from the customer’s account; however, some banks have implemented alternative repayment methods, such as paying in person or by mail. The deposit advance is typically repaid before any other transactions are paid. If the first deposit is insufficient to repay the deposit advance and also pay the fee, the repayment is obtained from subsequent deposits from the customer’s account.

Other Products and Services

Some banks implement unsecured credit products and services in the form of installment loans in place of DAPs. Refer to the “Installment Lending” booklet of the *Comptroller’s Handbook* and OCC Bulletin 2018-14, “Installment Lending: Core Lending Principles for Short-Term, Small-Dollar Installment Lending,” for more information.

Risks Associated With Deposit-Related Credit

From a supervisory perspective, risk is the potential that events will have an adverse effect on a bank’s current or projected financial condition⁵ and resilience.⁶ The OCC has defined eight categories of risk for bank supervision purposes: credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation. These categories are not mutually exclusive. Any product or service may expose a bank to multiple risks. Risks also may be interdependent and may be positively or negatively correlated. Examiners should be aware of and assess this interdependence. Examiners also should be alert to concentrations that can significantly elevate risk. Concentrations can accumulate within and across products, business lines, geographic areas, countries, and legal entities. Refer to the “Bank Supervision Process” booklet of the *Comptroller’s Handbook* for an expanded discussion of banking risks and their definitions.

DRC can be offered in a safe and sound manner if bank management properly understands and controls the primary risks associated with DRC: strategic, credit, operational, and

⁵ Financial condition includes impacts from diminished capital and liquidity. Capital in this context includes potential impacts from losses, reduced earnings, and market value of equity.

⁶ Resilience recognizes the bank’s ability to withstand periods of stress.

compliance. Failure to control the primary risks of DRC products and services may contribute to other risks, such as reputation and liquidity. Poorly structured DRC products and services can pose harm to customers. Accordingly, DRC products and services should be carefully designed and managed.

Strategic Risk

Strategic risk is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. A bank assumes strategic risk when taking on new product lines without having the expertise and systems to properly manage and control risks associated with the line of business.⁷ In a sound DRC program, staff has the knowledge and experience to recognize, assess, mitigate, and monitor the bank's DRC risks. Failure to provide effective oversight of DRC activities can increase the bank's strategic risk profile while also negatively affecting interrelated risks, such as credit and reputation risks. Factors that could raise a bank's level of strategic risk include

- failure to provide adequate resources for DRC products and services and related control systems.
- weaknesses in the administration of acquisitions, mergers, and alliances.

Credit Risk

Credit risk is the risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed. DRC is generally unsecured credit, and repayment depends primarily on a customer's creditworthiness. With regard to DAP and ODP, repayment is expected from the next deposit made to the customer's account. By contrast, CC may only require the customer to make minimum monthly payments that are computed as a fraction of the outstanding balances.

DRC products and services, particularly ODP and DAP, may exhibit higher-risk characteristics. For example, some customers who obtain certain ODP or DAP products or services may have cash flow difficulties or blemished or insufficient credit histories that limit other borrowing options. In addition, some DRC products and services are not underwritten for the individual customer and may rely on other eligibility criteria related to the customer's creditworthiness. In addition, extensions of credit that are subject to less stringent underwriting requirements and loans that exhibit subprime credit characteristics may present higher risk. The structure of DRC products and services and the presence of higher-risk characteristics may increase the credit risk of individual DRC extensions of credit and of the overall DRC portfolio.

⁷ Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles," for more information.

Numerous and repeated extensions of credit to the same customer may be substantially similar to continuous advances and can subject the bank to increased credit risk. Some customers may resort to repeated use of DRC products and services if they are unable to fully repay the balance on prior extensions of credit. This practice may increase credit risk and indicate a need for alternative credit arrangements or other services.

Operational Risk

Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. On a daily basis, banks face operational risk as they process DRC transactions for customers. Regarding DRC, operational risk can arise from failure to process transactions properly (e.g., accurately, timely, and consistent with disclosures), inadequate controls, employee error, a breakdown in the bank's systems or a natural catastrophe. The potential for employee or customer fraud and reliance on third parties also heightens operational risk.⁸

Products and services such as ODP and DAP, which are often highly automated and have a large transactional volume, should be supported by strong operational controls, systems, and expertise. To control operational risk, the bank should maintain effective internal controls and use comprehensive management information systems (MIS). Aggressive growth has the potential to stretch operational capacity and can cause operational lapses.⁹

Compliance Risk

Compliance risk is the risk to current or projected financial condition and resilience arising from violations of laws or regulations, or from nonconformance with prescribed practices, internal bank policies and procedures, or ethical standards. This risk exposes a bank to potential fines, enforcement actions (including civil money penalties), payment of damages, and the voiding of contracts.

DRC can pose significant compliance risk if a bank's systems of identifying, measuring, monitoring, and controlling risk are deficient.¹⁰ While compliance risk may occur at the bank level, this risk also can exist when DRC products, services, or systems associated with a third-party relationship are not properly reviewed for compliance or when the operations of

⁸ Refer to OCC Bulletin 2019-37, "Operational Risk: Fraud Risk Management Principles."

⁹ Refer to OCC Bulletin 2017-43.

¹⁰ Refer to the "Compliance Management Systems" booklet of the *Comptroller's Handbook* for more information.

the third-party relationship are not consistent with applicable laws, regulations, or the bank's policies and procedures.¹¹ The potential for violations of laws or regulations is heightened when the bank's risk management oversight program does not include appropriate control systems, including audit, particularly when a bank is implementing new activities.¹² Compliance risk also increases when privacy or customer records are not adequately protected, when conflicts of interest between the bank and its third-party relationships are not appropriately identified or managed, or when the bank or its service providers have not implemented an appropriate information security program. Further, section 5 of the Federal Trade Commission Act (FTC Act), 15 USC 45, prohibits banks from engaging in unfair or deceptive acts or practices¹³ (UDAP) in or affecting commerce. Also, Dodd–Frank prohibits unfair, deceptive, or abusive acts or practices (UDAAP).¹⁴ DRC products and services may raise UDAP or UDAAP concerns, depending on how they are marketed and implemented. The prohibitions on UDAP and UDAAP apply to every stage of the product or service life cycle and associated activities, including product development, the creation and rollout of marketing campaigns, servicing, and collections. Sound due diligence and monitoring include involvement from the compliance function, particularly when third-party products or services are present.

Various practices may raise compliance risk and supervisory concerns. Examples include

- Steering customers toward DRC products and services when they may qualify for other, less costly forms of credit.
- Failure to disclose the costs and fees of DRC products and services.
- Failure to monitor accounts for excessive use of DRC products and services and the costs of those products and services.
- Failure to implement effective risk management, including appropriate internal audits and compliance reviews.

¹¹ On supervisory expectations for managing third-party relationships, refer to OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Guidance”; OCC Bulletin 2020-10, “Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29”; and the “Third-Party Management” section of this booklet.

¹² Per OCC Bulletin 2017-43, “New, Modified, or Expanded Bank Products and Services: Risk Management Principles,” the term new activities describes collectively new, modified, or expanded products and services.

¹³ Refer to 15 USC 45(a)(1). The OCC has supervisory authority for compliance with the UDAP provisions in section 5 of the FTC Act for all OCC-supervised banks. For federal savings associations, see *OTS Examination Handbook* section 1354, “Unfair or Deceptive Acts or Practices, Federal Trade Commission Act, Section 5” and related “Program” and “Questionnaire.” For national banks and federal savings associations, see OCC Advisory Letter 2002-3, “Guidance on Unfair or Deceptive Acts or Practices” and OCC Advisory Letter 2000-7, “Abusive Lending Practices.”

¹⁴ Refer to 12 USC 5531(a), 5536(a)(1)(B). The OCC's supervisory authority for compliance with the UDAAP provisions in sections 1031 and 1036 of Dodd–Frank is generally limited to banks with total assets of \$10 billion or less. The CFPB has primary authority to enforce the prohibition on UDAAPs with respect to banks with more than \$10 billion in total assets. 12 USC 5515(c). The CFPB also has authority to prescribe rules identifying acts or practices as unlawful UDAAPs or to prevent such acts or practices. 12 USC 5531(b).

- Failure to adequately disclose transaction clearing policies and failure to disclose how those policies can affect the total amount of fees associated with DRC products and services.

Other laws and regulations that may apply to one or more types of DRC include, but are not limited to, the following:¹⁵

- **Truth in Lending Act (TILA):** TILA and Regulation Z require creditors to provide cost disclosures for extensions of consumer credit.¹⁶ Different rules apply to Regulation Z disclosures depending on whether the credit is an open- or closed-end credit product. Refer to the “Truth in Lending Act” booklet of the *Comptroller’s Handbook* and OCC Bulletin 2019-16, “Consumer Compliance: Revised Interagency Examination Procedures,” for more information
- **Electronic Fund Transfer Act (EFTA):** A DRC product or service that involves the use of electronic fund transfers must meet the applicable disclosure and other requirements of EFTA and Regulation E.¹⁷ EFTA requires that certain disclosures be made,¹⁸ generally prohibits creditors from mandating that credit be repaid by “preauthorized electronic fund transfers,”¹⁹ and allows consumers to withdraw authorization for “preauthorized fund transfers.”²⁰ Refer to the “Electronic Fund Transfer Act” booklet of the *Comptroller’s Handbook* and OCC Bulletin 2019-16, “Consumer Compliance: Revised Interagency Examination Procedures,” for more information.
- **Truth in Savings Act (TISA):** A program that involves a consumer’s deposit account must meet the disclosure requirements of TISA and Regulation DD.²¹ Under TISA, deposit account disclosures must include the amount of any fee that may be imposed in connection with the account and the conditions under which the fee may be imposed.²² Refer to the “Depository Services” booklet of the *Comptroller’s Handbook* for more information.
- **Equal Credit Opportunity Act (ECOA):** Under ECOA and Regulation B, creditors are prohibited from discriminating against an applicant on a prohibited basis in any aspect of

¹⁵ The list is not intended to affect whether or when such laws or regulations may apply to a particular DRC product or service.

¹⁶ 15 USC 1601 et seq. TILA is implemented by Regulation Z, 12 CFR 1026.

¹⁷ 15 USC 1693 et seq. EFTA is implemented by Regulation E, 12 CFR 1005.

¹⁸ See, e.g., 12 CFR 1005.7, 1005.8, and 1005.9.

¹⁹ See 12 CFR 1005.10(e).

²⁰ See 12 CFR 1005.10(c).

²¹ 12 USC 4301 et seq. TISA is implemented by Regulation DD at 12 CFR 1030 for depository institutions, including national banks and federal savings associations.

²² See 12 CFR 1030.4(b)(4).

a credit transaction.²³ The manner in which a creditor exercises its discretion, for example, in determining the application of eligibility requirements, loss mitigation options, and fee waivers, may raise fair lending risk. Refer to the “Fair Lending” booklet of the *Comptroller’s Handbook* for more information.

- **Military Lending Act (MLA):** The MLA, as implemented by the U.S. Department of Defense’s 32 CFR 232 (MLA regulation), creates limitations on and requirements for certain types of consumer credit extended to active-duty service members and their dependents (covered borrowers). The MLA regulation establishes a maximum military annual percentage rate (MAPR) of 36 percent in connection with an extension of covered consumer credit that is closed-end credit or in any billing cycle for open-end credit.²⁴ The MAPR includes certain charges that are not included in the finance charge or the annual percentage rate disclosed under TILA. Additionally, certain disclosures must be provided in writing and orally.²⁵ The MLA regulation also provides a number of limitations on covered credit, including limitations related to dispute resolution, payment terms and conditions, and creditors’ access to covered borrowers’ accounts.²⁶ Refer to the “Military Lending Act” booklet of the *Comptroller’s Handbook* for more information.

Banks may be subject to lawsuits for failure to comply with applicable laws and regulations. Litigation resulting from noncompliance can be costly due to defending and settling lawsuits if plaintiffs seek actual and punitive damages as well as compensation for lost opportunity. Litigation risk is increased if DRC is not administered properly. Sound due diligence, before implementing DRC programs, includes consulting with bank counsel to help ensure compliance with all applicable laws and regulations.

Examiners are reminded that laws and regulations are subject to change. Consequently, examiners should assess whether banks monitor applicable laws and regulations for revisions and assess banks’ processes for confirming that services and programs remain compliant with laws and regulations.

Reputation Risk

Reputation risk is the risk to current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank’s competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. This risk may arise from the bank’s obligations to customers, employees, and contracts with third parties, as well as through the outsourcing of any parts of the DRC program. Any aspect of DRC that the bank or the bank’s third parties conduct that is not consistent with the bank’s

²³ 15 USC 1691 et seq. ECOA is implemented by Regulation B, 12 CFR 1002. ECOA prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), the fact that all or part of the applicant’s income derives from a public assistance program, and the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

²⁴ See 32 CFR 232.4(b).

²⁵ See 32 CFR 232.6(d).

²⁶ See 32 CFR 232.8.

policies and standards, or laws and regulations, may increase the bank's reputation risk. Adverse publicity about the product or third parties may increase reputation risk.²⁷ Banks may be subject to negative news coverage and public scrutiny from reports of high fees and customers taking out multiple advances to cover prior advances and everyday expenses. Engaging in practices that are perceived to be unfair or detrimental to the customer can cause a bank to lose community support and business.

Liquidity Risk

Liquidity risk is the risk to current or projected financial condition and resilience arising from an inability to meet obligations when they come due. Failing to consider funding requirements created by DRC products and services can expose the bank to liquidity risk.

Risk Management

Each bank should identify, measure, monitor, and control risk by implementing an effective risk management system appropriate for the size and the complexity of its operations. When examiners assess the effectiveness of a bank's risk management system, they consider the bank's policies, processes, personnel, and control systems. Refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for an expanded discussion of risk management.

This section focuses on the primary methods by which banks manage risk. The risk management processes and controls may vary from bank to bank and may include differences by individual products and services.

Management and Supervision

Banks should have risk management systems commensurate with their DRC-related activity's risk and complexity. Management experience, staffing, systems, and reporting should be sufficient to enable the bank to monitor the activity knowledgeably and effectively.

Sound risk management of DRC includes adequate oversight and appropriate controls over DRC products and services so as to minimize exposure to potential financial loss, reputation damage, or customer harm. The bank's compliance management system should consider all statutes, regulations, and internal policies and procedures applicable to the bank's DRC products and services.

In accordance with board oversight and policies, management of any bank considering whether to offer DRC products and services or to maintain or expand the bank's DRC program should be aware of the risks involved. Sound processes for new activities include (1) identifying the business activities' risks, as well as the expertise and controls to manage

²⁷ For more information, refer to the "Third-Party Risk Management" section of this booklet; OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance"; and OCC Bulletin 2020-10, "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29."

them; (2) determining how well the bank can keep pace with technology and competition; and (3) determining whether the bank will use third parties in the activity and, if so, how much the bank will use them, for what purposes, and for which DRC products and services.

Examiners should determine whether management evaluates the risk and reward for DRC activity and confirms that the bank is not taking on an unacceptable level of risk, including potential risk to earnings or capital. Banks may be subject to exposure and losses through credit transactions with customers or through fraud. Uncontrolled growth and inadequate operations by third parties may further contribute to problems for banks.

For more information regarding new products and services, including sound due diligence practices, refer to OCC Bulletin 2017-43, “New, Modified, or Expanded Bank Products and Services: Risk Management Principles.”

Capital

Higher capital allocations generally apply to loan portfolios that exhibit higher-risk characteristics and are subject to less stringent loan underwriting requirements. Loan portfolios that exhibit subprime credit characteristics are higher risk and may require higher levels of capital. Any higher risk posed through contractual arrangements with third-party providers for DRC activities should be considered when determining the adequacy of capital for the activities. Examiners should assess whether the bank is operating within any established limits on the volume of DRC. The bank’s capital, its risk profile, and management’s ability to monitor and control DRC risks are important considerations when management or the board determines whether to establish limits and the appropriateness of such limits.

Management should engage in proper risk-based regulatory capital treatment of outstanding overdrawn balances and unused commitments. Overdraft balances should be risk weighted according to the obligor. Under the interagency risk-based capital rules,²⁸ the capital charge on the unused portion of a commitment generally is based on an off-balance-sheet credit conversion factor and the risk weight appropriate to the obligor. In general, these rules provide that the unused portion of a commitment is subject to a 20 percent credit conversion factor if the commitment has an original maturity of one year or less or a 50 percent credit conversion factor if the commitment has an original maturity of more than one year. Also, ODP that is unconditionally cancelable by banks in accordance with applicable law qualify for a 0 percent credit conversion factor. Beginning on January 1, 2020, qualifying banks that opt in to the community bank leverage ratio (CBLR) framework are not required to risk-weight the unused portion of a commitment or overdraft balance, as these banks are not subject to risk-based capital requirements.²⁹

²⁸ Refer to 12 CFR 3, “Capital Adequacy Standards” and 6, “Prompt Corrective Action.”

²⁹ Ibid. Refer also to OCC Bulletin 2019-55, “Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations,” and “Community Bank Leverage Ratio Framework: Community Bank Compliance Guide.”

Refer to the “Capital and Dividends” booklet of the *Comptroller’s Handbook* for more information.

Marketing

Account materials and marketing should not mislead customers about the optional nature of a DRC product or service or otherwise promote routine use or undue reliance on the products and services. In addition, a customer should be permitted to opt out of a DRC product or service at any time, after which no future advances may be made or related fees imposed, and the customer should be provided clear notice of this option. (Refer to OCC Advisory Letter 2000-7, “Abusive Lending Practices,” for national banks and federal savings associations. Refer also to the former Office of Thrift Supervision’s (OTS) *Examination Handbook* section 1354, “Unfair or Deceptive Acts or Practices, Federal Trade Commission Act, Section 5,” (including the accompanying program and questionnaire) for federal savings associations. Refer to OCC Advisory Letter 2002-3, “Guidance on Unfair or Deceptive Acts or Practices,” for national banks and federal savings associations.

Underwriting and Account Eligibility Criteria

Prudent policies set forth eligibility criteria for a customer to obtain the DRC product or service. Sound underwriting and eligibility criteria for CC and DAP

- are consistent with eligibility and underwriting criteria for other bank extensions of credit.
- are designed to prevent
 - high volumes of regular use (often referred to as churning).
 - prolonged use of products and services intended to meet short-term credit needs.
- include standards for an assessment of
 - the length of a customer’s deposit relationship with the bank.
 - the customer’s history with the bank on any current or prior relationships including classified credits.
 - the customer’s financial capacity and creditworthiness
 - factors to be considered before increasing credit limits (i.e., prior payment performance and the impact of the increase of the credit limit on the borrower’s financial capacity).
 - the customer’s continuing eligibility.

Repetitive use of certain CC and DAP products and services could indicate weak underwriting, may be subject to examiner criticism, and may affect a bank’s regulatory ratings and risk assessment.³⁰

³⁰ Refer to the “Bank Supervision Process,” “Community Bank Supervision,” “Federal Branches and Agencies Supervision,” and “Large Bank Supervision” booklets of the *Comptroller’s Handbook* for more information regarding regulatory ratings and risk assessment criteria.

Prudent ODP risk management practices include establishing express account eligibility standards and well-defined and properly documented dollar limit decision criteria. In addition, there should be established procedures for the suspension of overdraft services when the account holder no longer meets the eligibility criteria (such as when the account holder has declared bankruptcy or defaulted on other credit at the bank).

Monitoring and Reporting

Regular reports to management on the volume, trend, profitability, delinquency, and credit performance of the DRC program support prudent risk management. Effective reports may

- segment accounts by level of utilization to identify excessive product usage.
- describe the status and outcome of internal reviews and evaluations of accounts identified as demonstrating excessive usage.

Ongoing Monitoring and Account Management

Prudent monitoring of DRC activity analyzes whether changes in customer circumstances have affected credit risk and identifies customers with repeated or extended use of DRC, which may indicate a need for alternative credit arrangements or other services.

Some banks that have extended their CC programs to small businesses have found that the practice may involve a higher than normal risk unless placed under very stringent controls. Because such advances are basically unsecured lines of credit, the examiner's review should be based on the same factors and criteria used in the review of unsecured commercial loans. For national banks and covered savings associations, refer to the "Commercial Loans" booklet of the *Comptroller's Handbook* for more information regarding unsecured commercial lending. For federal savings associations, refer to *OTS Examination Handbook* section 214, "Other Commercial Lending."

Regulatory and Financial Reporting

With respect to the reporting of income and loss recognition, banks must follow the instructions for the Consolidated Reports of Condition and Income (call report) and generally accepted accounting principles (GAAP). Rigorous loss estimation processes should be adopted to accurately measure fee income associated with DRC. Such methods may include providing loss allowances for uncollectible fees or only recognizing that portion of earned fees estimated to be collectible. For more information, refer to OCC Bulletin 2001-37, "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions: ALLL Methodologies and Documentation," and OCC Bulletin 2005-9, "Overdraft Protection Programs: Interagency Guidance."

If a bank advises customers of the available amount of ODP, for example, when accounts are opened, or the amount is noted on customers' account statements or ATM receipts, the bank must report the available amount of ODP coverage with legally binding commitments for call

report purposes. These available amounts, therefore, must be reported as “unused commitments” in regulatory reports.³¹

Portfolio Quality

Delinquencies

Delinquencies in CC and DAP accounts often occur when an account is at or near the maximum credit line. Accordingly, sound risk management includes reviewing frequent, comprehensive reports that reflect pertinent information about the CC or DAP product or service, including schedules of

- delinquent accounts (aged).
- accounts for which payments are made by drawing on reserves.
- accounts with steady usage.

Classification and Charge-Off

An overdraft balance should be charged off when considered uncollectible, which is generally no later than 60 days from the date that balance first became overdrawn.³² In some cases, a bank may allow a customer to cover an overdraft through an extended repayment plan if the customer is unable to bring the account to a positive balance within the required time frame. Even if a repayment plan exists, the overdraft should still be charged off when considered uncollectible, which is generally no later than 60 days from the date that balance first became overdrawn. In some cases, a shorter period could be appropriate. Any payments received after the account is charged off (up to the amount charged off against allowance) should be reported as a recovery.

Some overdrafts may be rewritten as loan obligations in accordance with the bank’s loan policy and supported by a documented assessment of the customer’s ability to repay. In those instances, the charge-off time frames described in the Federal Financial Institutions Examination Council (FFIEC) Uniform Retail Credit Classification and Account Management Policy (Retail Classification Policy) generally apply.³³

Deposit advances that are not repaid in accordance with the account terms should be treated as open-end or closed-end credit, as applicable, when considering the appropriateness of the bank’s charge-off time frames. CC advances should be treated as credit card advances when considering the appropriateness of the bank’s charge-off time frames.

³¹ Refer to call report instructions for Schedule RC-L.

³² Refer to OCC Bulletin 2005-9, “Overdraft Protection Programs: Interagency Guidance.”

³³ Refer to OCC Bulletin 2000-20, “Uniform Retail Credit Classification and Account Management Policy: Policy Implementation.”

The FFIEC Retail Classification Policy includes guidelines for classifying and charging off consumer credit based on delinquency, but the policy also allows examiner discretion to classify individual retail loans that exhibit signs of credit weakness, regardless of delinquency status. Examiners may classify retail portfolios, or segments thereof, for which underwriting standards are weak and present unreasonable credit risk. See OCC Bulletin 2000-20, “Uniform Retail Credit Classification and Account Management Policy: Policy Implementation” for additional information.

Third-Party Risk Management

Some banks may enter into third-party relationships related to offering DRC products and services. Third-party relationships are any business arrangement between the bank and another entity, by contract or otherwise. Banks frequently outsource functions to third parties to control costs, or to benefit from the technological expertise and capabilities of third parties without having to develop the systems and infrastructure in-house. Third parties may provide a wide array of services; examiners should understand that each bank’s list of third parties used and services outsourced is unique. The quality of the services provided by third parties can vary widely. Examiners should assess the bank’s due diligence and ongoing monitoring of third parties’ activities and performance.

A bank’s use of a third party does not diminish the responsibility of banks to conduct the activities in a safe and sound manner and in compliance with applicable laws and regulations, just as if the bank were to perform the activities in-house. The board should receive sufficient information to appropriately oversee the bank’s third-party risk management program.³⁴

Banks should have risk management processes that are commensurate with the level of risk and complexity of its third-party relationships and the bank’s organizational structure. More comprehensive and rigorous oversight and management are appropriate for third-party relationships that involve critical activities, for example, significant bank functions (such as payments, clearing, settlements, or custody) and significant shared services (such as information technology), or other activities that

- could cause a bank to face significant risk if the third party fails to meet expectations.
- could have significant negative impact on customers.
- require significant investment in resources to implement the third-party relationship and manage the risk.
- could have a major impact on bank operations if the bank has to find an alternate third party to conduct the outsourced activity or if the outsourced activity has to be brought in-house.

Banks should conduct appropriate due diligence before selecting a third-party provider. Regardless of the type of third-party relationship, selecting a competent and qualified third-party is essential to managing risk. The due diligence process provides the bank with an

³⁴ Refer to OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Guidance,” OCC Bulletin 2017-7, “Third-Party Relationships: Supplemental Examination Procedures,” and OCC Bulletin 2020-10, “Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29.”

opportunity to review qualitative and quantitative aspects, both financial and operational, of a third party and to assess whether the third party can help the bank achieve its strategic goals.

It is prudent for contracts to establish the bank's right to audit, monitor performance, and require remediation when issues are identified. As specified in contracts, bank management should periodically arrange for on-site inspections or audits of third parties. Written reports should be generated, and the third party's management should be required to respond in writing to issues identified during inspections and audits. If the third party is required to have specialized audits or an attestation engagement or elects to have such audits or attestation, bank management should obtain and review the audits or attestation.³⁵

Banks also should confirm that third-party processors and network providers have contingency plans for continuing operations. Examiners conducting reviews of this area should include IT examiners to the extent needed to review the bank's in-house data-processing systems and the adequacy of the business continuity and contingency plan.

For more information regarding third-party risk management, refer to OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance," and OCC Bulletin 2020-10, "Third-Party Relationships: Frequently Asked Questions to Supplement Bulletin 2013-29."

³⁵ Examples of audit and attestation engagements include those performed according to Statement on Standards for Attestation Engagements No. 18, "Attestation Standards: Clarification and Recodification" and International Standard on Assurance Engagements No. 3402, "Assurance Reports on Controls at a Service Organization."

Examination Procedures

This booklet contains expanded procedures for examining specialized activities or specific products or services that warrant extra attention beyond the core assessment contained in the “Community Bank Supervision,” “Federal Branches and Agencies Supervision,” and “Large Bank Supervision” booklets of the *Comptroller’s Handbook*. Examiners determine which expanded procedures to use, if any, during examination planning or after drawing preliminary conclusions during the core assessment.

Scope

These procedures are designed to help examiners tailor the examination to each bank and determine the scope of the DRC examination. This determination should consider work performed by internal and external auditors and other independent risk control functions and by other examiners on related areas. Examiners need to perform only the objectives and steps that are relevant to the scope of the examination as determined by the following objective. Examinations seldom require every objective or step of the procedures.

Objective: To determine the scope of the DRC examination and identify the examination objectives and activities necessary to meet the needs of the supervisory strategy for the bank.

1. Review the following sources of information to identify previously identified deficiencies related to DRC that require follow-up:
 - Supervisory strategy.
 - Scope memorandum.
 - Previous supervisory activity work papers
 - Previous supervisory letters and reports of examination and management’s responses
 - Loan review reports and management’s responses
 - Internal and external audit reports and work papers and management’s responses
 - Customer complaints and litigation. Examiners should review customer complaint data from the OCC’s Customer Assistance Group, the bank, and the Consumer Financial Protection Bureau (when applicable). When possible, examiners should review and leverage complaint analysis already performed during the supervisory cycle to avoid duplication of effort.
2. Review the Uniform Bank Performance Reports (UBPR) and applicable OCC reports or analytical tools.
3. Review policies, procedures, and reports bank management uses to supervise DRC, focusing on any significant changes or trends since the last examination. Consider
 - the bank’s current plans, both formal and informal, that relate to DRC products and services.

- management’s analysis of capital adequacy or capital allocated for DRC risks.
 - an organizational chart including each functional area.
 - copies of formal job descriptions for all personnel involved with the DRC products and services.
 - copies of the two most recent DRC reports to management and the board, as applicable.
 - copies of all internal and external audit reports issued since the last examination, with any response from management.
 - copies of all loan review and ODP reports for the DRC products and services.
 - new customer accounts reports for the applicable products for the previous three months.
 - a list of board or management committees that supervise DRC, including a list of members and copies of minutes documenting those meetings since the last examination.
 - copies of marketing plans for the overall DRC products and services and, if applicable, for each DRC product and service.
 - copies of applicable policies and procedures for DRC products and services.
 - profitability reports for the specific DRC products and services for the most recent year-end and year to date.
 - a list of all insiders who have DRC or receive DRC products and services.
 - any management reports addressing credit risk posed by specific DRC products and services, as well as reports addressing credit risk associated with customers that have those products and services.
 - daily fraud-monitoring reports.
 - fraud loss and credit loss history (including information concerning ODP losses).
 - list of third parties that provide DRC-related services to the bank, including name and address of each third party, and a description of services provided by them related to the applicable product.
4. Identify, during early discussions with management,
- any significant changes in policies, processes, personnel, and controls since the last DRC examination.
 - what DRC products and services are offered and whether the DRC products and services were developed and administered internally or externally.
 - any changes in the bank’s DRC-related activities (e.g., products, services, growth, geographies, target market, marketing plan and activities, and third parties associated with the bank’s DRC products and services).
 - how management supervises product and service operations.
 - any internal or external factors that could affect operations.
5. Using the findings derived from performing the preceding procedures and from information obtained during discussions with the bank’s EIC and other appropriate supervisors, set the examination’s scope and objectives. From the following examination

procedures, internal control questions, and verification procedures, select the ones necessary to meet those objectives.

6. As examination procedures are performed, test for compliance with the bank's established policies, procedures, internal controls, and applicable laws and regulations, and consistency with OCC issuances. Identify any area with inadequate supervision, weak internal controls, undue risk, or increasing risk profile.

Functional Area Procedures

Overall objective: To assess the quantity and direction of risks in a bank's DRC activity; understand management's risk appetite; gain an understanding of products and services offered or planned; assess policies, procedures, and practices used in DRC; and assess compliance with applicable laws and regulations and consistency with sound risk management principles.

This objective is achieved through completion of examination activities in some or all of the following functional areas.

Separate from these Functional Area Procedures, compliance-specific procedures may be found in the Consumer Compliance series of booklets of the *Comptroller's Handbook*. Compliance-specific booklets are generally arranged according to specific regulations. A number of compliance regulations may be applicable to DRC products and services. See the Compliance Risk section in the Introduction of this booklet for additional information.

Management and Supervision

Objective: To assess the adequacy of the strategic plan, business plan, and overall planning process, including management's methodology for setting DRC growth and profitability targets, and the processes to maintain appropriate expertise and sufficient staffing within the DRC line of business.

1. Review the bank's strategic and business plans and determine whether management's plans for DRC products and services are clear and represent the current direction of the bank, as well as any changes since the last examination that may not be consistent with the bank's current strategic plan.
2. If issues identified in prior examinations, audits, or credit reviews remain uncorrected, determine whether the board or its audit committee has adopted a corrective action plan and, if so, the status of implementing corrective actions.
3. Obtain, through discussion with the manager of the DRC activities, information about the overall portfolio, management reports, and policies. Review significant changes since the last examination to understand how the changes have affected the portfolio's risk profile.
4. Evaluate any new programs the bank is pursuing and what effect the programs may have on the DRC operation.
5. Review all aspects of the DRC programs offered by the bank, including marketing practices, advertising, and customer disclosures, for compliance with applicable laws and regulations.

6. Assess performance management and compensation programs. Consider whether these programs measure and reward performance that aligns with the bank's strategic objectives and risk appetite.

If the bank offers incentive compensation programs, determine whether they are consistent with applicable rules and sound risk management principles. OCC Bulletin 2010-24, "Interagency Guidance on Sound Incentive Compensation Policies," provides three key principles:

- provide employees with incentives that appropriately balance risk and reward.
 - be compatible with effective controls and risk management.
 - be supported by strong corporate governance, including active and effective oversight by the bank's board of directors.
7. Assess management's responsiveness to regulatory, accounting, industry, and technological changes.
 8. Review the organizational chart for the department or line of business to determine what other responsibilities, if any, the DRC manager has within the bank. Determine whether the organizational structure is appropriate.
 9. Determine what committees, if any, are involved in reviewing DRC products and services. Review the committee's minutes for pertinent information about discussion of risks, changes to current products and services, and any potential new products and services being considered. Determine whether the committee structures, if any, are appropriate.
 10. Determine whether current staffing levels meet the bank's short- and long-term requirements. Determine whether
 - staffing levels are adequate for the number of accounts, volume of activity on the accounts, account monitoring needs, and, if applicable, the need to oversee third parties and use of outsourcing arrangements for the DRC products and services.
 - staffing levels are sufficient to investigate daily fraud exception reports in a timely manner.
 - staff receive adequate training.
 - turnover of staff for the area appears high and, if so, why.
 11. Determine whether there is a separate bank policy for DRC products and services or if it is incorporated within another bank policy. If there is a separate policy, determine when it was approved and when it was last updated.
 12. Evaluate the overall adequacy of written policies for DRC products and services by considering whether the policy
 - establishes clear lines of authority and responsibility.

- identifies the risks the bank is willing to accept and limits the amount of those risks in relation to capital or earnings, as appropriate.
 - provides for adequate and knowledgeable staff.
 - requires written contracts between all third parties associated with DRC products and services.
 - establishes underwriting or eligibility criteria, as appropriate, applied to qualify customer accounts for DRC products and services, and for the acceptance of new customer accounts into DRC products and services.
 - requires the development of procedures to monitor the activity of customer accounts.
 - establishes risk-based guidelines for the periodic review of customer accounts.
 - requires adequate reports to keep management and the board informed of the DRC program's condition.
 - requires a comprehensive procedure manual to guide officers and employees in administering the DRC program.
 - establishes guidelines for handling exceptions to policy (including appropriate approval and monitoring requirements and criteria for suspending availability) and sets limits on acceptable exception volumes.
 - addresses criteria for paying DRC items, such as overdrafts or debit items.
 - establishes appropriate limits for DRC items in conjunction with different types of deposit accounts. For example, limits with overdrafts might include dollar limits for individual items and cumulative items, and item limits, such as the number of overdraft items that are allowed during a statement cycle or other specific time frame or during the life of the account.
 - establishes criteria for canceling participation and privileges in DRC products and services, as well as criteria for the charge-off of an ODP balance or outstanding balances on other DRC products and services.
 - identifies circumstances under which features of a DRC program or product are reactivated for suspended or canceled customer accounts, if applicable.
 - establishes criteria for establishing a payment plan for a customer using certain DRC products and services, if the bank offers a payment plan option.
13. Determine whether DRC policies are approved and annually reviewed by the board of directors or a committee thereof. Determine whether the board, or a committee thereof, evaluates policies for changing market and business conditions at least annually and whether the policies are in line with the overall strategic plan for this activity.
14. Determine whether the bank policy addresses charge-off requirements and accounting treatment for DRC products and services and assess the policy's appropriateness. Also, determine whether the bank uses the same charge-off time frames for all DRC products and services or whether it varies by product.
15. Determine whether the bank policy addresses the approval process for new DRC accounts, including any applicable underwriting or account eligibility criteria for new accounts. Determine whether the policy addresses the following items:
- Documentation requirements for customer files.

- Applicable underwriting for DAP or CC, or ODP account eligibility criteria guidelines, for customer accounts.
 - Guidelines for suspending DRC accounts.
 - Termination or closing procedures for DRC accounts.
 - Types of derogatory information acceptable on credit reports, if applicable.
 - Handling of exceptions for DRC account approvals.
16. Determine whether the bank has adopted a policy applicable to small businesses for creditworthiness or eligibility criteria for new DRC accounts. If so, determine whether the policy states the following:
- The customer must provide the bank with financial information, the type of information, and the frequency of obtaining the information (if this occurs on a periodic basis after the account is opened).
 - An experienced commercial credit officer must review the periodic financial statements of the business.
 - The bank must review the depth and experience of the management of the business.
 - The bank must perform required background checks and that the checks should determine whether any business or the business's principals have criminal records.

Underwriting and Account Eligibility Criteria

Objective: To determine whether underwriting standards (for CC and DAP) and account eligibility criteria (for ODP) are consistent with business and strategic plans, as well as risk appetite objectives, and whether appropriate controls and systems are in place. To assess the quality of new DRC accounts, identify any changes from past underwriting standards or account eligibility criteria, determine the adequacy of and adherence to DRC policies and procedures, and gain a thorough understanding of the processes employed in DRC underwriting and account eligibility criteria.

1. Evaluate the bank's policy and process for approving new DRC accounts, including underwriting or account eligibility criteria for new accounts. Determine whether the policy addresses the following items:
 - Types of customer accounts for which the bank does not want to offer DRC products and services.
 - Documentation requirements for DRC files.
 - Underwriting or eligibility criteria guidelines for DRC products and services, including approval of line or limit increases for DRC products and services.
 - Criteria to determine whether extensions of credit and fees can be timely repaid.
 - Termination or closing account procedures for DRC accounts and services.
 - What types of derogatory information from credit reports may be acceptable, if applicable.
 - Handling of exceptions to the DRC account and service approval policy.

2. Determine what information sources the bank relies upon to evaluate a customer's creditworthiness for CC or DAP, or account eligibility for ODP, and the extent to which the bank relies upon information solely or in conjunction with other forms of information. Evaluate whether the bank relies on
 - information provided by the customer through an application.
 - information provided through a credit bureau report and whether the bank evaluates the information from the report.
 - a credit score. Banks may use credit scores or credit bureau information to project the probability of future payment performance based on past experience, but are not required to do so.
 - a proprietary scoring model and, if so, determine what factors and information are considered in the model.
 - an evaluation of a customer's account behavior based on inflows and outflows through deposit accounts.
3. Determine whether the bank's underwriting policies and practices for a CC or DAP product or service, and its eligibility criteria for an ODP service, are commensurate with the specific risks associated with the product type and the terms and conditions under which the product will be extended. Underwriting and eligibility policies and practices among banks may vary but should be appropriate based on the type of credit product.
 - For CC and DAP, evaluate whether the bank is conducting an appropriate degree of analysis before a customer's request for credit is approved to determine whether the customer will be able to manage and repay the credit obligations in accordance with the terms associated with the product.
 - Evaluate the terms of the ODP product to determine whether product features increase the probability that a customer will be able to successfully manage repayment of the obligation.
4. Evaluate the bank's procedures for ensuring compliance with the DRC approval policy.
5. Determine how the bank documents and monitors exceptions to the DRC approval policy. Evaluate the practices for waiving documentation requirements.
6. Select a representative sample of recently approved DRC files (for example, within the last 90 days). Review the sample of files for compliance with the bank's underwriting requirements or account eligibility criteria and consistency with sound banking practices. Summarize the results of the DRC file review. Determine whether the level of exceptions to the bank's policies is reasonable and whether the bank is engaging in safe and sound risk selection.
7. Identify excessive, repeated usage of products and services.
8. Obtain the following reports, which may be used in step 9 and for sampling and testing purposes:

- Most recent report of overlimit and overline accounts (list of any DRC accounts for which the bank customer has exceeded the established limit and line granted by the bank for the account).
 - Most recent exception reports.
 - Most recent stagnant maximum usage report, if available.
 - Most recent inactive suspects report (list of accounts on which payments are made by drawing on reserves).
 - Most recent report of customers who have opted in/opted out of ODP products and services.
 - Month-end account balance and total delinquency.
 - Trial balance of all accounts related to the DRC area. Using the trial balance (if needed for verification purposes),
 - agree or reconcile balances to departmental controls and general ledger. If the totals do not agree or reconcile, it may be necessary to obtain support records for daily transactions that may have posted later and account for a difference in the totals.
 - review reconciling items for reasonableness.
9. Using appropriate sampling techniques,³⁶ select customers with DRC products and services for review. Review the selected accounts, preparing line sheets or worksheets where appropriate, and
- if the credit was granted since the preceding examination, ascertain that the
 - application form is on file and properly completed.
 - customer’s signature is on file.
 - credit check or review of eligibility criteria has been performed, if required for the particular product.
 - established credit limit is properly authorized and in compliance with policies.
 - test the accuracy of the reports obtained at step 8 by
 - tracing any overlimit credit for proper inclusion in the overline report. For those included, review the files to determine whether
 - the line or limit was originally established in compliance with bank policy.
 - the overline or overlimit status was the result of deficiencies in policy or procedures.
 - action has been taken to prohibit additional advances until the account is within the established credit line.
 - based upon available information, customer has the ability to repay or meets account eligibility criteria (which may vary by product).
 - tracing credits with exceptions for proper inclusion in appropriate exception reports. For those included, determine whether appropriate action is being taken to resolve the situation and whether collectability is questionable.
 - tracing any long-standing fully advanced credits for proper inclusion in the stagnant maximum usage report. For those included, determine whether

³⁶ Refer to the “Sampling Methodologies” booklet of the *Comptroller’s Handbook*.

appropriate action is being taken to resolve the situation and whether collectability is questionable.

- tracing any delinquent credit for proper inclusion in the appropriate past-due report.
- review accounts selected to determine adequacy of and compliance with bank policy and procedures for
 - granting of extensions.
 - identification of outstanding balances on any DRC accounts carried forward or rolled over to other credits, when the prior credit amount was not paid in a timely fashion.
 - placing accounts on reduced payments schedule.
 - placing accounts on nonaccrual status.
 - identification of excessive, repeated usage of products and services.

10. In evaluating the bank's ongoing review of DRC accounts, determine

- the type or size of DRC accounts included for review.
- what area of the bank conducts the review and the frequency of the review.
- the scope of the review and the bank's documentation process for the review.
- if the review covers DRC accounts for business customers, whether the review is coordinated with the commercial loan department.

Portfolio Quality

Objective: To evaluate portfolio quality and the effectiveness of charge-off processes for DRC. To determine the bank's compliance with laws and regulations and assess consistency with sound risk management principles.

1. Obtain the reports listed below for the DRC products and services. These reports may be used to identify credits that potentially should be charged off, to evaluate portfolio quality, or in conjunction with a review for compliance with laws and regulations and consistency with bank policy. The use of some of these reports may be more fully addressed in procedures elsewhere under this section.
 - Past-due credits.
 - Overdraft report.
 - Use of DRC products and services by major shareholders, employees, executive officers, directors, or their related interests.
 - Extensions of credit to officers and directors of other banks.
 - Miscellaneous loan debit and credit suspense accounts.
 - DRCs considered problem credits by management.
 - Specific guidelines in the bank's lending policy.
 - Each officer's current lending authority.
 - Current interest rate structure.

- Any useful information obtained from the minutes of the loan and discount committee or any similar committee for DRC products and services.
 - Reports furnished to the loan, retail banking, or other appropriate committee.
 - If applicable, reports furnished to the board of directors.
2. Review the overdraft report and determine whether charge-offs are taken in accordance with bank policy and sound risk management principles. Verify that management has established reasonable loss recognition guidelines. Overdrafts should generally be charged off within 60 days after the date the account first went into overdraft status. Determine whether stale items appear on the overdraft report and, if yes, proceed to procedure 3.
 3. Prepare a list of stale and past-due DRC items for discussion with management and direct charge-off as appropriate. The list should include the customer name, account number, amount outstanding, loan or account identification number, and any other pertinent information.
 4. Review reports for any past-due credits for the DRC area since the previous examination and investigate any significant variations.
 5. If the bank uses repayment plans to allow customers longer terms to pay off overdrafts, determine whether the accounts are carried on the books beyond 60 days from the date of the advance. Those accounts should be charged off and the subsequent plan payments treated as an allowance recovery.
 6. Review charge-offs and recoveries over the last year. If the bank does not have appropriate reports to track trends, calculate the ratio on a quarterly or semiannual basis as appropriate. Evaluate any significant trends, variances, or changes.
 7. Review the information for extensions of credit to officers and directors of other banks and investigate for any circumstances that may indicate preferential treatment.
 8. Review information provided for DRC-related suspense accounts and discuss with management any large or stale items in the accounts. Perform additional procedures, as deemed appropriate.
 9. Determine compliance with laws and regulations pertaining to specific DRC products and services, as described below.
 - For 12 CFR 215, 12 USC 375a, “Loans to Executive Officers of Bank,” and 12 USC 375b, “Extensions of Credit to Executive Officers, Directors, and Principal Shareholders of Member Banks.” Per 12 USC 1468(b), the aforementioned sections of 12 USC 375a and 12 USC 375b apply to all savings associations “in the same manner and to the same extent” as if the savings association were a member bank. Per 12 CFR 31.2, savings associations are subject to Regulation O.

Provide the examiner assigned to “Loan Portfolio Management” (or the equivalent function) outstanding balances on DRC products and services for advances to executive officers, directors, and principal shareholders and their related interests for inclusion in the review for compliance with Regulation O.

Otherwise, review information received from the examiner assigned “Loan Portfolio Management,” including participations and loans sold, and

- test the accuracy and completeness of the loans to executive officers, directors, and principal shareholders and their related interests by looking to see if the information includes DRC products and services for the individuals and credits sampled.
 - review credit files to determine whether required information is available.
- For 12 USC 84 “Lending limits”³⁷, 12 USC 1464(u) “Limits on loans to one borrower” (federal savings associations), and 12 CFR 32 “Lending limits” (all banks) determine compliance with the lending limits for aggregate loans to customers. These laws and regulations apply to extensions of credit to all customers of the bank.
 - For 12 USC 1464(c)(2)(A) and 12 CFR 160.30, endnote 19 (federal savings associations), determine compliance with the statutory investment limit in commercial loans. Overdraft credit extended by a federal savings association relating to commercial demand deposit accounts is considered a commercial loan for purposes of determining the association’s percentage of assets limitation. These limits do not apply to covered savings associations.
 - For 31 CFR 1010.410(a), “Records to be Made and Retained by Financial Institutions,” review operating procedures and credit file documentation and determine whether the bank retains a record of each extension of credit of more than \$10,000 that specify the name and address of the customer, the amount of the credit, the nature and purpose of the credit, and the date of the credit.

10. Assess the quality, accuracy, and completeness of management and board reports and other analyses used to manage the DRC collections process.

11. Determine what system(s) the bank uses to recover DRC charged-off accounts and balances and whether they interface with the bank’s collection management system(s). If not, determine how the recovery unit gathers and uses information about prior collection activities.

12. Determine whether customer service or any department other than collections can initiate DRC collection activities. If so, determine whether appropriate monitoring reports are in place to monitor volumes and credit performance of accounts in collection activities initiated outside of collections.

³⁷ 12 USC 84 applies to federal savings associations pursuant to 12 USC 1464(u).

Profitability

Objective: To assess management’s ability to accurately calculate the profitability of DRC products and services while also assessing the quantity, quality, and sustainability of earnings from DRC products and services.

1. Review profitability statements for DRC activities to evaluate major costs and fee income items in relation to overall profitability. Determine the impact of DRC losses and fraud losses on line-of-business profitability. Consider the level and trend of charge-offs and recoveries on DRC operating performance.
2. Review operating results for DRC activities for the most recent year-end and the current year to date. Determine whether there is a profit or loss and the extent to which the bank is relying on fee income generated from DRC products and services. Assess whether the bank has an over-reliance on fee income from any single DRC product. Evaluate whether the bank considers the significance of a particular product and monitors for potentially undue reliance on fees generated by that product for its revenue and earnings.
3. If the DRC operation is unprofitable, determine the bank’s appetite, plan, and rationale for continuing to offer unprofitable products and services, or assess the bank’s plans for bringing certain products and services, and the operation to a profitable status.
4. Review the budgeting process for the DRC area and investigate any significant variances between budget and actual performance. Determine whether the department is expected to meet this year’s budget and, if not, why not.
5. Evaluate the reports used in determining the department’s profitability.
6. Determine how management determines costs—that is, whether it uses actual or estimated costs—and whether the methodology is appropriate.
7. Review the bank’s pricing policies and evaluate the bank’s pricing methods. If the bank offers reduced rates based on other existing banking relationships, evaluate the risks and rewards.
8. Determine which personnel have the authority to set pricing variables and how management monitors the pricing process.
9. If the bank relies on third parties in connection with DRC products and services, coordinate with the examiner reviewing third-party relationships and determine whether pricing programs are used and whether pricing is tied to other services.

Risk Management and Control Systems

Objective: To assess the adequacy of the bank's processes for identifying, measuring, monitoring, and controlling risk related to DRC activity by reviewing the effectiveness of risk management and other control functions.

1. Consider whether processes are effective, adequately communicated to appropriate staff, and consistent with underlying bank policies. Review any written procedures and processes for DRC. Discuss processes with management and department heads to determine how policy requirements and changes are communicated.
2. Determine whether internal controls are in place and functioning as designed. Complete the internal control questionnaire (ICQ) for CC, if necessary. Review any special reports the bank may use for internal control purposes, and hold discussions with management, as appropriate.
3. Assess and review the scope, frequency, effectiveness, and independence of the internal and external audits of the DRC area.
 - Review audit reports, work papers, and management's responses to any issues. Determine the status of corrective actions as appropriate.
 - Determine whether internal auditors review major services provided by third-party organizations for DRC, if applicable.
 - Determine whether audits address appropriate operational areas for DRC.
 - Assess the internal or external auditor's knowledge of the DRC area and whether the auditor's knowledge is adequate to perform an effective review.
 - Determine whether audit findings and the status of responses to audit findings are relayed to the board.
4. Determine how the bank establishes parameters for exceptions to DRC policies and procedures and the approval process for exceptions, if applicable.
5. Evaluate monitoring systems' effectiveness in identifying, measuring, and tracking exceptions to policies and established limits.
6. Assess the adequacy of the overall reports by doing the following:
 - Review the reports management routinely uses and determine whether the reports adequately inform management of the risk posed by DRC products and services.
 - Determine whether adequate processes for information, data integrity, and report accuracy exist.
 - Determine whether key management reports are clearly labeled, dated, maintained, and updated.
 - Determine whether reports are produced to track volume and performance by product, channel, or marketing initiative.

- Determine whether reports are available to track performance trends, delinquency, and quality.
 - Review reports to management or the board, as applicable, and determine whether the information is timely, accurate, and useful. At a minimum, reports should include information for each portfolio product, number of accounts and total balances, delinquency and charge-off information, fraud activity, and risk levels and trends for the DRC area. Any reports to the board, or an appropriate board committee, should include sufficient information for the board to provide appropriate oversight.
 - Evaluate systems planning to determine whether MIS and reporting needs are adequately researched and developed before new products and services are rolled out. Specifically, determine whether the systems and reports are adequate to supervise and administer new products and services.
 - Review the adequacy of reports pertaining to fraud. Determine whether the information is sufficient to monitor fraud and the effectiveness of fraud risk management, including controls for the appropriate filing of suspicious activity reports (SAR).
7. Determine whether the bank has appropriate DRC tracking and reporting systems (e.g., by product type) and whether management regularly monitors and analyzes that information, including
- utilization rate of the CC and DAP as a percentage of the approved credit limit, and for ODP, as a percentage of deposit accounts.
 - timeliness of repayments.
 - charges or fees per account and as a percentage of average account balance.
 - losses as a percentage of the specific product by number of accounts and in dollars.
8. Review the bank's call report and determine whether the bank is treating assets and any losses associated with DRC appropriately. Specifically, confirm that
- DRC assets are treated as "other consumer loans" on Schedule RC-C.
 - if the bank advises the customer of the available amount of ODP, the unadvanced portions (with legally binding commitments) are reported as unused commitments on Schedule RC-L.
 - principal losses and recoveries related to these accounts go through the allowance for loan and lease losses (ALLL) or the allowance for credit losses (ACL) for the banks that have adopted Accounting Standards Update (ASU) 2016-13 and are shown on Schedule RI-B.
 - losses associated with fees are reversed against the income account in which originally recognized (if in the same accounting period) or are charged against a loss allowance for uncollectible fees.
9. Determine whether the scope and frequency of fraud reviews are adequate. Assess the bank's processes if potential fraud is uncovered. Refer to OCC Bulletin 2019-37, "Operational Risk: Fraud Risk Management Principles" for more information.

Perform verification procedures if the reports and trial balances contain unusual information or information that cannot be readily explained.

Third-Party Risk Management

Objective: To determine the extent of all third-party relationships related to DRC and evaluate the effectiveness of management’s oversight and risk management processes. Refer to OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Guidance”; OCC Bulletin 2020-10, “Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29”; and OCC Bulletin 2017-7, “Third-Party Relationships: Supplemental Examination Procedures.”

1. Determine what third-party relationships the bank uses for DRC. Identify the role the third parties play and the activities or services performed.
2. Assess the rationale behind management’s decision to use third parties for DRC and determine whether management conducted appropriate due diligence.
3. Evaluate whether the bank periodically reviews its third-party relationships and, if so, the frequency and content of the reviews. Information available for the review of third-party relationships may include audit reports, attestation engagements, financial statements, third-party operational reviews, disaster contingency plans, and reports of bank regulatory agencies.
4. Review contracts of critical third-party relationships to assess the following information:
 - Terms specifying financial compensation, payment arrangements, and price changes.
 - Reasonableness of the compensation agreement. If there are income-sharing provisions, determine whether the provisions are equitable to the bank and whether the third-party relationship shares not only income but also costs (e.g., participates in credit losses, receives less income).
 - Provisions prohibiting the third party from assigning the agreement to any other party.
 - Frequency and means of communications and monitoring activities of each party.
 - Specific work the third party performs.
 - Whether the contract addresses compliance with the specific laws and regulations and is consistent with sound risk management principles and the bank’s standards applicable to the activities involved.
 - Whether the contract states the bank has the right to monitor on an ongoing basis the third party’s compliance with applicable laws, regulations, and policies and requires remediation if issues arise.
 - Whether the contract provides for the confidential treatment of records.
 - Record-keeping requirements for each party and whether the parties have access to each other’s records.

- Whether the bank or the third party is responsible for responding to customer complaints. If the third party is responsible for customer complaints, whether the contract includes provisions regarding the responsibility of the third party to respond in a timely manner to customer complaints and forward a copy of each complaint and response to the bank.
 - Whether the contract stipulates when and how the third party should notify the bank of its intent to use a subcontractor, whether the contract specifies the activities that cannot be subcontracted or whether the bank prohibits the third party from subcontracting activities to certain locations or specific subcontractors.
 - Responsibility for audits and whether the bank has the right to audit the third party.
 - Notification requirements for system changes that could affect procedures and reports.
 - Whether the contract includes requirements for the regular and timely submission of the third party's financial information and, if the third party is involved with the ongoing administration or servicing of the product, whether the contract allows the bank to audit the third party at will.
 - Whether the contract includes a reasonable right to cancel and whether termination clauses are one-sided in the third party's favor.
 - Whether contractual penalties for terminating the contract seem reasonable.
 - Whether the contracts contain the appropriate signatures.
5. Determine whether management has obtained contingency or business resumption plans for critical third-party relationships related to DRC. Review the bank's analysis of contingency plans to determine adequacy. If an analysis does not exist, review the reasonableness of contingency plans.
 6. Determine whether third-party contingency plans are adequately considered in the bank's overall contingency plan.
 7. Determine whether the management of DRC products and services requires the third party to adopt a written action plan when results fall below the bank's standards, are inconsistent with sound risk management, or violate legal standards.
 8. Determine whether the bank keeps contracts on file for each third-party relationship used for the DRC program, the location of original contracts, and whether the bank securely maintains electronic or hard copies of contracts. If contracts are securely maintained as hard copies, determine whether they are maintained in a fire-protected area.
 9. Obtain a report that shows the volume of activity with each third-party relationship. Review third-party relationships that have a significant volume of activity (transactions or dollar amount).
 10. Review a sample of third-party relationship files. Evaluate whether the information in the files is appropriate in light of the significance of the third party's activities and risk posed to the bank and check for consistency with the bank's policy.

Conclusions

Conclusion: The aggregate level of each associated risk is
(low, moderate, or high).
The direction of each associated risk is
(increasing, stable, or decreasing).

Objective: To determine, document, and communicate overall findings and conclusions regarding the examination of DRC.

1. Determine preliminary examination findings and conclusions and discuss with the EIC, including
 - quantity of associated risks (as noted in the “Introduction” section).
 - quality of risk management.
 - aggregate level and direction of associated risks.
 - overall risk in DRC.
 - violations and other deficiencies.

Summary of Risks Associated With DRC				
Risk category	Quantity of risk	Quality of risk management	Aggregate level of risk	Direction of risk
	(Low, moderate, high)	(Weak, insufficient, satisfactory, strong)	(Low, moderate, high)	(Increasing, stable, decreasing)
Credit				
Liquidity				
Operational				
Compliance				
Strategic				
Reputation				

2. If substantive safety and soundness concerns remain unresolved that may have a material adverse effect on the bank, further expand the scope of the examination by completing verification procedures.
3. Share substantive consumer protection-related concerns that are identified or remain unresolved with the EIC or lead compliance examiner for direction and appropriate course of action.

4. Discuss examination findings with bank management, including violations, deficient practices, and conclusions about risks and risk management practices. If necessary, obtain commitments for corrective action.
5. Compose conclusion comments, highlighting any issues that should be included in the ROE or supervisory letter. If necessary, compose matters requiring attention and violation write-ups.
6. Update the OCC's supervisory information systems and any applicable ROE schedules or tables.
7. Document recommendations for the supervisory strategy (e.g., what the OCC should do to effectively supervise DRC in the bank, including time periods, staffing, and workdays required.)
8. Update, organize, and reference work papers in accordance with OCC policy.
9. Appropriately dispose of or secure any paper or electronic media that contain sensitive bank or customer information.

Internal Control Questionnaire for Check Credit

An ICQ helps an examiner assess a bank's internal controls for an area. ICQs typically address standard controls that provide day-to-day protection of bank assets and financial records. The examiner decides the extent to which it is necessary to complete or update ICQs during examination planning or after reviewing the findings and conclusions of the core assessment.

Although this ICQ is specifically designed for CC, to the extent that the following questions are applicable, examiners may also apply them to DAP and ODP.

CC Policies

1. Has the bank adopted written CC policies that establish the following:
 - Procedures for reviewing CC applications or eligibility where applications are not required?
 - Standards for determining credit lines and limits?
 - Minimum standards for documentation?
2. Are CC policies reviewed at least annually to determine whether they are compatible with changing market conditions and legal requirements?

CC Records

3. Is the preparation and posting of subsidiary CC records performed or reviewed by persons who do not also
 - issue official checks or drafts singly?
 - handle cash?
4. Are the subsidiary CC records reconciled daily to the appropriate general ledger accounts and are reconciling items investigated by persons who do not also handle cash?
5. Are delinquent account collection requests and past-due notices checked to the trial balances used in reconciling CC subsidiary records to general ledger accounts and are they handled only by persons who do not also handle cash?
6. Are inquiries about credit balances received and investigated by persons who do not also handle cash?
7. Are documents supporting recorded CC adjustments checked or tested subsequently by persons who do not also handle cash? (If not, briefly explain.)

8. Is a daily record maintained summarizing transaction details—e.g., credits extended, payments received, and interest or fees collected—to support applicable general ledger account entries?
9. Are frequent note and liability ledger trial balances prepared and reconciled with controlling accounts by employees who do not process or record credit transactions?
10. Are suspense accounts reviewed daily for timely disposition of all items?
11. Are authorized signatures required to effect a status change regarding individual customer accounts?
12. Is an exception report produced that encompasses extensions, renewals, and any factors that would result in a change in customer account status and is it reviewed by operating management?
13. Is an overdue-accounts report generated frequently? If so, how often?

Interest and Service Fees

14. Is the preparation and posting of interest or service fee records performed or reviewed by persons who do not also
 - issue official checks or drafts singly?
 - handle cash?
15. Are any independent interest and service fee computations made and compared or tested to initial interest and service fee records by persons who do not also
 - issue official checks or drafts singly?
 - handle cash?

Other

16. Are statements of balances and payments due issued at least monthly?
17. If the CC is established in conjunction with a demand account, are combined demand deposit and credit statements issued?
18. If the CC (regarding available checks to the customer) is separate from the customer's demand account, but is paid through the demand account, are notices of transfer from the CC cash reserve to the demand account delivered on a timely basis to the customer?
19. Are all internally prepared entries affecting customer account records approved by an officer?

20. Are customers prohibited from exceeding their maximum approved lines?

- If not, is the allowed overline amount a percentage of their maximum approved credit line? If so, what is the stated percentage?

21. Are the following reports prepared for internal use in the department and monitored:

- Overlimit and overline balances?
- Stagnant maximum usage balances?
- Inactive suspect accounts (accounts for which payments are made by drawing on reserve)?

22. Are the above reports reviewed for accuracy periodically by someone independent of the CC function?

23. Are customers forbidden to make payments by drawing against a CC reserve?

- If not, how many payments may be made by drawing against the CC reserve before a warning is issued to the customer?

24. Do operating procedures require that simultaneous drawing and payment postings to the same account be reported to department management?

25. Is a completed application obtained from each customer that includes the following (specific information for the application and the application process may vary by product and underwriting or credit eligibility criteria):

- Name?
- Address?
- Number of dependents?
- Occupation?
- Length of employment?
- Income?

26. Are credit limits varied according to the customer's repayment ability?

- If so, does the bank conduct an analysis of the customer's financial capacity, including income levels?

27. Are credit limit approvals made by an officer or employee granted within the approved credit authority?

28. Are credit investigations performed on every applicant before a CC is approved?

29. Are credit reports and investigations updated periodically? If so, what is or what are the periodic basis or criteria used to determine when updated credit reports and investigations should occur?
30. Is each credit line evidenced by a properly completed credit agreement?
31. Are credit lines periodically reviewed for appropriateness of the amount of the line?
32. Is additional credit review undertaken if the customer requests a credit line increase?
33. Are procedures in effect to review credit lines if the bank becomes aware of a change in the financial status or creditworthiness of a borrower?
34. Do controls exist to prohibit the opening of more than one specific type of CC account for any one customer?
35. Are exception reports reviewed and initialed by an officer daily?
36. Is a regular review made of all past-due accounts?
37. Is a customer contact record maintained for each collection account with appropriately detailed comments and date of contact?
38. Are collectors required to issue pre-numbered receipts when payments are received?
39. Is customer contact rotated between collectors?
40. Are procedures in effect for establishing employee accounts?
41. Are employee accounts periodically reviewed?
42. If employees are permitted to maintain CC accounts, are procedures in effect to determine whether accounts are being used to conceal shortages during audits of those employees?

Conclusion

43. Is the foregoing information an adequate basis for evaluating internal controls, in that there are no significant additional internal auditing procedures, accounting controls, administrative controls, or other circumstances that impair any controls or mitigate any weaknesses indicated above? (Explain negative answers briefly and indicate conclusions regarding the effects on specific examination or verification procedures.)
44. Based on the answers to the foregoing questions, internal control for CC is considered _____ (strong, satisfactory, insufficient, or weak).

Verification Procedures

Verification procedures are used to verify the existence of assets and liabilities or test the reliability of financial records. Examiners generally do not perform verification procedures as part of a typical examination. Rather, verification procedures are performed when substantive safety and soundness concerns are identified that are not mitigated by the bank's risk management systems and internal controls.

1. Test the addition of the trial balance and the reconciliation of the trial balance to the general ledger.
2. Using appropriate sampling techniques, select accounts from the trial balance including customer outstanding balance and approved limit for the customer, and
 - prepare and mail confirmation forms to ask customers to confirm balances and credit limits as of the last statement date.
 - after a reasonable time, mail second requests for any confirmations not returned by the customers.
 - follow up on any no-replies or exceptions received and resolve differences.
3. If the bank charges a fee for DRC services,
 - using the selected accounts, check computation of the latest charges.
 - trace charges to posting in appropriate general ledger income account.
 - review monthly income amounts posted to the general ledger for reasonableness relative to the number of DRC accounts handled.
4. Obtain or prepare a schedule showing the amount of monthly interest and fee income and the DRC credit balances at the end of each month since the preceding examination and investigate significant fluctuations or trends.

Appendixes

Appendix A: Sample Request Letter

Deposit-Related Credit Request Letter

Please provide copies of the following:

Management and Board Supervision

1. Current organizational chart for the banking area that oversees DRC activity.
2. Résumés of all principals who oversee DRC activity.
3. Job descriptions of all principal positions that oversee DRC activity.
4. Strategic and business plans and budgets for the banking area that oversees DRC activity.
5. Management's annual analysis of capital adequacy or capital allocation relative to the risk profile of DRC activities.
6. Two most recent sets of recurring management reports related to DRC activity reviewed by management and/or the board of directors.
7. Report on new DRC activity or management summaries of DRC activity for the previous three months.
8. Credit risk management reports for DRC.
9. Concentration reports for DRC by state or geographic area or industry.
10. DRC policies and procedures.
11. Committee minutes for DRC activities.

Underwriting and Eligibility

12. A listing of all DRC customers who are bank insiders (and their related interests) as defined in Regulation O (12 CFR 215).
13. Samples of customer agreements, including deposit account agreements eligible for ODP, and applications related to DRC.
14. List of all DRC reserves.

Profitability

15. Profitability report for the DRC department for the most recent year-end and the current year to date.
16. Current fee schedule and definitions of fees charged for DRC.
17. Profitability reports by DRC product segment.

Third-Party Relationships

18. List of third parties used for DRC activity by name and address and a description of services provided. Please provide a copy of contracts with third-party since the last examination.
19. List of any credit relationships with third parties associated with DRC activities, including credit terms and amounts.

Risk Management

20. Management summary of loan policy exceptions/overrides for DRC activity.
21. Brief description of the fraud-monitoring process, the systems and reports used, prioritization of investigations, and staffing involved in the process for DRC activity.
22. Representative sample of daily fraud-monitoring reports for DRC activity.
23. Fraud loss history for DRC for the most recent year-end and year to date. Were SARs filed for the fraud losses identified?
24. Credit loss history for DRC for the most recent year-end and year to date.
25. Any additional risk analysis or reports used to evaluate DRC activity apart from daily monitoring reports.

Audit

26. Most recent internal or external audit reports related to DRC activity and management's response.

Loan Review

27. Copies of internal loan review reports for the DRC activity. Also, provide any management responses for these reports.

Please Make the Following Available Upon Our Arrival at the Bank:

26. All third-party relationship files, including current financial statements for parties providing services to DRC activities.
27. All third-party written contracts and agreements related to DRC products and services and agreements between third parties and the bank's data processor(s).
28. Disaster contingency plans for third-party organizations that provide DRC-related services and bank management's review of the plans.
29. Internal audit work papers from review of DRC activity.

Appendix B: Abbreviations

ACH	automated clearing house
ALLL	allowance for loan and lease losses
APR	annual percentage rate
ATM	automated teller machine
call report	Consolidated Reports of Condition and Income
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk
CBLR	community bank leverage ratio
CC	check credit
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
DAP	deposit advance product
Dodd–Frank	Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010
DRC	deposit-related credit
ECOA	Equal Credit Opportunity Act of 1974
EFTA	Electronic Fund Transfer Act of 1978
EIC	examiner-in-charge
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FTC Act	Federal Trade Commission Act
GAAP	generally accepted accounting principles
HOLA	Home Owners’ Loan Act
ICQ	internal control questionnaire
ISAE	International Standard on Assurance Engagements
IT	information technology
MAPR	military annual percentage rate
MIS	management information systems
MLA	Military Lending Act of 2006
OCC	Office of the Comptroller of the Currency
ODP	overdraft protection
OTS	Office of Thrift Supervision
ROE	report of examination
SAR	suspicious activity report
SSAE	Statement on Standards for Attestation Engagement
TILA	Truth in Lending Act of 1968
TISA	Truth in Savings Act of 1991
UDAAP	unfair, deceptive, or abusive acts or practices
UDAP	unfair or deceptive acts or practices
USC	U.S. Code

References

Listed references apply to national banks and federal savings associations unless otherwise noted.

Laws

- 12 USC 24(Seventh), “Corporate Powers of Associations” (national banks and covered savings associations)
- 12 USC 84, “Lending Limits”³⁸
- 12 USC 375a, “Loans to Executive Officers of Banks”
- 12 USC 375b, “Extensions of Credit to Executive Officers, Directors, and Principal Shareholders of Member Banks”
- 12 USC 1464(c)(2)(A), “Commercial and Other Loans” (federal savings associations)
- 12 USC 1464(u), “Limits on Loans to One Borrower” (federal savings associations)
- 12 USC 1468(b), “Extensions of Credit to Executive Officers, Directors, and Principal Shareholders” (federal savings associations)
- 12 USC 4301 et seq., “Truth in Savings”
- 12 USC 5515(c), “Primary Enforcement Authority”
- 12 USC 5531, “Prohibiting Unfair, Deceptive, or Abusive Acts or Practices”
- 12 USC 5536, “Prohibited Acts”
- 15 USC 45, “Unfair Methods of Competition Unlawful; Prevention by Commission”
- 15 USC 1601 et seq., “Truth in Lending Act”
- 15 USC 1691 et seq., “Equal Credit Opportunity Act”
- 15 USC 1693 et seq., “Electronic Fund Transfer Act”

Regulations

- 12 CFR 3, “Capital Adequacy Standards”
- 12 CFR 6, “Prompt Corrective Action”
- 12 CFR 32, “Lending Limits”
- 12 CFR 101, “Covered Savings Associations” (covered savings associations)
- 12 CFR 160.30, “General Lending and Investment Powers of Federal Savings Associations” (federal savings associations)
- 12 CFR 215, “Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks (Regulation O)”
- 12 CFR 1002, “Equal Credit Opportunity Act, Regulation B”
- 12 CFR 1005, “Electronic Fund Transfers, Regulation E”
- 12 CFR 1026, “Truth in Lending, Regulation Z”
- 12 CFR 1030, “Truth in Savings, Regulation DD”
- 32 CFR 232, “Limitations on Terms of Consumer Credit Extended to Service Members and Dependents”

³⁸ Applicable to federal savings associations pursuant to 12 USC 1464(u).

Comptroller's Handbook

Examination Process

- “Bank Supervision Process”
- “Community Bank Supervision”
- “Federal Branches and Agencies Supervision”
- “Foreword”
- “Large Bank Supervision”
- “Sampling Methodologies”

Consumer Compliance

- “Compliance Management Systems”
- “Depository Services”
- “Electronic Fund Transfer Act”
- “Fair Credit Reporting”
- “Fair Lending”
- “Military Lending Act”
- “Truth in Lending Act”

Safety and Soundness

- “Capital and Dividends”
- “Commercial Loans” (national banks and covered savings associations)
- “Corporate and Risk Governance”
- “Installment Lending”

OTS Examination Handbook (federal savings associations)

- Section 214, “Other Commercial Lending”
- Section 1354, “Unfair or Deceptive Acts or Practices, Federal Trade Commission Act, Section 5”

OCC Issuances

- Advisory Letter 2000-7, “Abusive Lending Practices”
- Advisory Letter 2002-3, “Guidance on Unfair or Deceptive Acts or Practices”
- OCC Bulletin 2000-20, “Uniform Retail Credit Classification and Account Management Policy: Policy Implementation”
- OCC Bulletin 2001-6, “Subprime Lending: Expanded Guidance for Subprime Lending Programs”
- OCC Bulletin 2001-37, “Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions: ALLL Methodologies and Documentation”
- OCC Bulletin 2005-9, “Overdraft Protection Programs: Interagency Guidance”
- OCC Bulletin 2010-15, “Overdraft Protection: Opt-In Requirements and Related Marketing Issues” (national banks)

OCC Bulletin 2010-24, “Incentive Compensation: Interagency Guidance on Sound Incentive Compensation Policies”
OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Guidance”
OCC Bulletin 2017-7, “Third-Party Relationships: Supplemental Examination Procedures”
OCC Bulletin 2017-43, “New, Modified, or Expanded Bank Products and Services: Risk Management Principles”
OCC Bulletin 2018-14, “Installment Lending: Core Lending Principles for Short-Term, Small-Dollar Installment Lending”
OCC Bulletin 2019-16, “Consumer Compliance: Revised Interagency Examination Procedures”
OCC Bulletin 2019-31, “Covered Savings Associations Implementation: Covered Savings Associations” (covered savings associations)
OCC Bulletin 2019-37, “Operational Risk: Fraud Risk Management Principles”
OCC Bulletin 2019-55, “Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations: Final Rule”
OCC Bulletin 2020-10, “Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29”
“Community Bank Leverage Ratio Framework: Community Bank Compliance Guide”

Other

American Institute of Certified Public Accountants, Accounting Standards Board, “Statement on Standards for Attestation Engagement No. 18, Attestation Standards: Clarification and Recodification” (SSAE 18)
Federal Financial Institutions Examination Council “Instructions for Preparation of Consolidated Reports of Condition and Income” (call report instructions)
International Auditing and Assurance Standards Board, “International Standard on Assurance Engagements No. 3402, Assurance Reports on Controls at a Service Organization” (ISAE 3402)