**Policy 7215: Overdraft Protection**

**Model Policy Revised Date: 05/13/2024**

**General Policy Statement:**

[[CUname]] (Credit Union) may honor a member transaction that results in an overdrawn account through the use of the Credit Union’s overdraft protection program (also commonly referred to as "courtesy pay"). Under this program, the Credit Union charges a fee to provide for the payment of a transaction that would otherwise be returned due to non-sufficient funds (NSF). The Credit Union is under no obligation to pay every overdraft.

1. **TYPES OF TRANSACTIONS SUBJECT TO OVERDRAFT PROTECTION.** The Credit Union offers overdraft protection for the following types of transactions which could result in an overdrawn account: [[7215-1]]
2. **ATM AND ONE-TIME DEBIT CARD TRANSACTIONS**. Prior to assessing a fee for ATM and one-time debit card transaction overdrafts, the Credit Union will provide members with the right to opt in, or affirmatively consent, to the Credit Union’s overdraft service for ATM and one-time debit card transactions ***for each account***, pursuant to the Credit Union’s ATM/Debit Cards Policy **(See Policy 2615)**.
3. **MEMBER QUALIFICATIONS.** The Credit Union will only offer this program to members “in good standing.” To be considered “in good standing,” the following qualifications must be met: [[7215-2]]

	1. Members who are automatically enrolled in the program will be provided with a notice of enrollment, along with an opportunity to “opt out,” at the time the eligibility is established.
	2. Members who no longer meet the eligibility requirements will have access to the program revoked.
4. **DOLLAR LIMITS.**

	1. The total dollar amount of all overdrafts the Credit Union will honor is not to exceed $[[7215-3]], including fees at any given time.
	2. The total dollar amount of overdrafts the Credit Union will honor per member at any given time is not to exceed $[[7215-4]], including fees, if there is no right of offset or there will be a verifiable direct deposit in the account within five business days and is sufficient to cover the overdraft; or $[[7215-5]], including fees, if there are available funds in a share account that can be pledged.
5. **REPAYMENT.**

	1. A member has [[7215-6]] calendar days from the day the advance was made, not to exceed 45 calendar days, to either deposit the funds or obtain an approved overdraft loan set forth in Section (5)(B) from the Credit Union to cover each overdraft.
	2. Overdraft loans that remain unpaid will be handled in a manner consistent with the Credit Union’s Collection Procedures and/or Loan Charge Offs policy. If a member does not qualify for a loan under these policies and guidelines (i.e., credit underwriting, risk-based lending requirements, loan documentation, etc.), the member may sign a promissory note to repay the overdraft at an interest rate not to exceed [[7215-7]]%.
6. **FEES.**
	1. Applicable fees in compliance with regulation, will be assessed for each overdraft. A list of current fees and applicable interest rate(s) will be furnished when the account is opened.
7. **DISCLOSURES.**

	1. At the time an account is opened, members will be provided with a disclosure of the fees and a list of categories of transactions for which an overdraft fee may be imposed, including any limitations of the program. Members will also be made aware that fees charged for covering overdrafts will be subtracted from any overdraft protection limit disclosed. Those members automatically included in the program will also be provided notice of automatic eligibility and an opportunity to opt out.
	2. The Credit Union will explain the balance method (available or actual method) used to determine insufficient funds. The Credit Union will provide examples of the method and will ensure disclosures, member account agreements and actual practice are consistent.
	3. The Credit Union will define “overdraft” and “account balance” in their disclosures for member understanding.
	4. The Credit Union will also provide a periodic statement disclosure regarding the total amount of overdraft fees or charges imposed on an account for the statement period and calendar year to date.
8. **ADVERTISING.** The Credit Union will not state the available overdraft limit or indicate the amount of overdraft funds available in individual member accounts in any advertisement or periodic statement. The Credit Union will not mislead members to believe the overdraft program is a line of credit or that the payment of overdrafts is guaranteed. The program will be accurately represented as a member service that may cover inadvertent overdrafts.
9. **NO PREFERENTIAL TREATMENT.** Credit Union staff and board members will not be granted preferential treatment through waived or reduced fees.
10. **NEGATIVE ACCOUNT BALANCES**. The Credit Union may immediately terminate this program for members who fail to pay any negative balance amounts upon demand. The Credit Union, after [[7215-8]] days written notice to the member of his/her negative account balance, may terminate membership or limit services, based on the Credit Union’s policy for membership expulsion/termination of services. The Credit Union will charge off overdraft balances when they are considered uncollectible, but no later than 60 days from the date the member was first overdrawn. The credit union will report income and loss recognition on overdraft protection programs consistent with generally accepted accounting principles (GAAP) and in accordance with NCUA 5300 Call Report instructions. Overdraft losses will be charged off against the Credit Union's Allowance for Credit Losses.
11. **BEST PRACTICES. The Credit Union will consider the following best practices related to their overdraft protection program:**

	1. *Balances used.* The Credit Union will specify the definition of balances used to calculate overdraft transactions (i.e., available vs. actual balance) and will have corresponding disclosures that match that practice. Additionally, account balances published, will not include overdraft protection funds.
	2. *Authorize Positive, Settle Negative.* These transactions may occur when a debit card transaction authorizes when a consumer balance is positive, but that later posts to the account when the available balance is negative. The Credit Union will review their practices, procedures, and disclosures on these types of fee assessments to ensure compliance risk is mitigated.
	3. *Representment Fee Practices.* When the Credit Union receives a check or automated clearing house (ACH) transaction that is presented for payment from a member’s account and there are insufficient funds, the Credit Union may decline to pay and charge the member an NSF fee. If that transaction is presented again (representment) and the member’s account still has insufficient funds, the charging of another overdraft or NSF fee may be considered a “representment fee.” Since representment is out of the member’s control, the Credit Union will review their fee assessment practices ensuring compliance risk is mitigated.
	4. *Alternative Options.* The Credit Union will inform members about other alternatives to overdraft services that may be available. Staff will be trained to talk about the program's features, costs, and terms, including how to opt out of service. Staff will also be able to explain the available alternatives and how a member may qualify.
	5. *Establishment of controls and limits for removal.* The Credit Union will establish controls and limits in dollars and numbers of transactions before removing an account from overdraft protection.
	6. *Excessive usage options.* The Credit Union will define and monitor excessive overdraft protection usage and inform members of other options or alternative credit arrangements.
	7. *Transaction order.* The Credit Union will process transactions in a neutral order that avoids manipulation or structuring transactions to maximize overdrafts and related fees.
	8. *De minimus amount.* The Credit Union will define an amount under which overdraft fees are not charged if the account is overdrawn in order to avoid reputation risk for charging a fee significantly great than the item being cleared for payment.
	9. *Notifications*. The Credit Union will notify the member when overdraft protection has been accessed, including the date of the transaction and the amount. If possible, the Credit Union will alert the member before overdraft fees are triggered, if for example, they are at a teller window. The Credit Union will also notify the member if their overdraft access has been revoked, if for example they are no longer in good standing.
	10. *Management Oversight.* Management will review reports on a regular basis to identify, measure and manage overdraft volume, profitability and credit performance.