

Bank:

Date of Exam:

Charter #:

Prepared By:

## #20– OVERDRAFTS and KITE SUSPECT (Risk Focused)

### ASSIGNMENT OVERVIEW

Review of a bank's overdraft activity and procedures is important to assess the bank's control over the unsecured extensions of credit which result from paid overdrafts. Check kiting can occur when a customer is allowed to draw against uncollected funds. Banks have suffered high losses from check kiting activity, therefore monitoring and control systems should be in place to guard against it. Check kiting is illegal, and is not covered under standard Blanket Bond insurance policies. "Cuts" refer to that group of deposit items that are not posted in any given days' work. They include insufficient checks, stop/hold suspect items, items with bad account numbers, etc. It is important that these items be researched and posted the following business day. For more information, see the FDIC Examination Manual [Section 3.4](#) on "Cash and Due From Banks." The related Reference document on DOBIE for this procedure identifies useful regulations, guidance, and other issuances by various regulatory authorities.

### INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations.

All examiners performing these procedures must be listed above in the "Prepared By" section. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation should be enough to create an audit trail of the examiner's thought process and all significant findings. Indicate compliance by selecting a response from the list in the dropdown box. If non-compliance is noted, provide a comment.

Information on the Summary of Findings (SOF) page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the SOF will be included in the Report of Examination.

LPAQ

The LPAQ icon indicates that this section focuses on Law, Policy and Asset Quality (LPAQ) elements within the procedure. The LPAQ elements were identified to better utilize examiner resources by streamlining the procedures in a more risk-based approach. Examiners may perform the designated sections which address LPAQ when no significant issues are indicated in the prior examination or internal/external audits or identified during the planning and scoping of the examination. An examiner (FE II or higher) who is considered proficient in this area is eligible to perform the LPAQ review. **Performing the LPAQ steps does not mean that other areas are to be ignored. As always, if at any time it becomes apparent that the scope of the work performed should be expanded, then do not hesitate to do so.**

For the LPAQ review, perform the steps with the LPAQ icon; otherwise complete the CORE ANALYSIS PHASE. The SOF page should be completed and a summary rating assigned.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be noted on the SCOPE FORM.

**EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION'S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.**

## CORE ANALYSIS PHASE

### #20 –Overdrafts and Kite Suspect

	<b>1. Prior Criticism</b>
LPAQ	<p><b>1.</b> Determine whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management. Detail how deficiencies were corrected.</p> <p style="color: blue;"><i>Include copy of exam and/or audit exceptions and management response in workpapers or summarize exceptions/criticisms below or indicate the page number in the last examination report where deficiencies are noted, if applicable.</i></p>
	<b>Comment:</b>
	<b>2. Balance and Reconcile</b>
	<p><b>2.</b> Reconcile and balance the overdraft list to the general ledger and identify overdrafts 30 days or older. Verify that overdrafts are properly reported on RC-C and RC-N. Comment on deficiencies noted. <i>Include reconciliation and overdraft list in 20-A of work papers.</i> (Note: Examiner performing #14 Loans will also verify content of RC-C and RC-N).</p>
	<b>Comment:</b>
	<b>3. Review of Overdraft Practices, Policies &amp; Trends</b>
	<p><b>3a.</b> Determine if there is a high overdraft volume in relation to historical balances. Comment on reasons why and consider possibilities including but not limited to the following: new formal overdraft program, liberal overdraft approval systems, lax charge-off practices, and new or individual officers with high overdrafts. Look at random dates.</p>
	<b>Comment:</b>
	<p><b>3b.</b> Determine if the overdraft reports provided to the board are adequate. Review a sample of reports using a non-financial date and month-end date. Is there is any unusual activity during the month that doesn't appear at month end?</p>
	<b>Comment:</b>
	<p><b>3c.</b> Determine if the bank has adopted written policies and procedures to address the credit, operational, legal, and other risks associated with overdraft protection programs. Refer to the <a href="#"><u>Joint Guidance on Overdraft Protection Programs</u></a> (issued February 18, 2005); the FDIC Overdraft Payment Supervisory Guidance (issued November 24, 2010), <a href="#"><u>FIL-81-2010</u></a> and the <a href="#"><u>Appendix</u></a> for guidance.</p>
	<b>Comment:</b>

## #20 –Overdrafts and Kite Suspect

LPAQ	<p><b>3d.</b> Evaluate the collection merits of the overdrafts. Unless otherwise directed by the EIC, discuss stale and large overdrafts with management, and request that management charge-off overdrafts which appear uncollectible. Overdraft balances should generally be charged off when considered uncollectible, but no later than 60 days from the date first overdrawn.</p>
	<b>Comment:</b>
	<b>4. Kite Suspects</b>
	<p><b>4.</b> If management allows customers to draw against uncollected funds, document how management protects the bank from a kite. Comment on reports reviewed, approval process, and applicable limits. <i>Include copy of kite suspect report in 20-B of work papers.</i></p>
	<b>Comment:</b>
	<b>5. Regulation O Compliance</b>
LPAQ	<p><b>5.</b> Review the deposit screen for all executive officers and directors accounts for Reg O compliance. As directed by EIC, review a sample of individual statements for unusual activity. Confer with the EIC whether any other employee accounts should be reviewed.</p> <p>Review the deposit screen on related interests for preferential treatment/unusual activity and determine compliance with Reg O.</p> <p>Comment on findings.</p>
	<b>Compliance with Reg O?</b> Choose an item.
	<b>Comment:</b>
	<b>6. Review of NSF Reports</b>
LPAQ	<p><b>6.</b> Each day during the examination, obtain the NSF report that shows what items will be paid or returned. Provide the report to the examiners working loans.</p> <p><b>Completed Daily During Exam:</b> <input type="checkbox"/> Yes   <input type="checkbox"/> No</p> <p><i>Any response other than "Yes" requires a comment.</i></p> <p><b>Comment:</b></p>
	<b>7. Final Analysis</b>
LPAQ	<p><b>7.</b> Complete the <u><a href="#">Summary of Findings</a></u>.</p>

## SUMMARY OF FINDINGS

### #20 - OVERDRAFTS AND KITE SUSPECT

**Describe all strengths evident from the evaluation.**

**Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.**

**Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.**

**SUMMARY RATING:** Choose an item.

*Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.*

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## APPENDIX

### REVIEW OF OVERDRAFT PRACTICES, POLICIES & TRENDS

**Overdraft policies and procedures should address the following broad areas:**

- Account eligibility standards
- Well-defined and properly documented dollar limit decision criteria
- Time frames for when account holders must pay off overdraft balances
- The suspension of overdraft protection services when the account holder no longer meets the eligibility requirements.
- Guidelines for addressing a lack of repayment of an overdraft
- Charge-off procedures.

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