

RESCINDED

Credit Card Lending Program

Replaced: See OCC Bulletin 2015-41

EXAMINATION

To determine if the policies, procedures, and controls regarding credit cards adequately ensure safety and soundness and compliance with laws and regulations.

To determine if officers and employees are qualified and performing their duties in a manner that ensures safety and soundness and is in conformance with policies and procedures.

To determine if financial records and management reports provide accurate and necessary information to management and directors.

To determine the adequacy of the audit and internal loan review function in this area.

To evaluate the credit card portfolio for credit quality and overall risk.

To determine if any recourse, either contractual or implicit, exists for any sold or securitized accounts.

To initiate corrective action when deficiencies exist that could affect safety and soundness, or when you note violations of laws or regulations.

EXAMINATION PROCEDURES

Perform the following procedures as appropriate depending on the size, complexity, and risk profile of the association's credit card operations. Not all procedures are necessary for each examination. You should determine which procedures are necessary during the scoping process.

Execute the following examination procedures in conjunction with [Handbook Section 201, Lending Overview](#), review. When an association has multiple loan departments (e.g., segregated by lending type(s)), you should arrive at a conclusion about the individual lending operations and an overall evaluation of the lending function and the quality of the loan portfolio. The Examiner-in-Charge (EIC) or assisting examiner responsible for Asset Quality should avoid duplication of effort by ensuring an exchange of information and results from examiners responsible for the different Asset Quality sections.

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LEVEL I

This section expands on the general lending policies described in [Handbook Section 201 Overview](#), and [Section 217, Consumer Lending](#) to include additional guidelines for Credit Card Lending and the use of Credit Scoring Models.

1. Participate in the Level I reviews of Sections [201](#) and [217](#), or discuss the findings with the EIC. The review should focus on whether the association's loan policies and procedures address the different types of credit cards offered and how they are solicited. It should also assess whether the underwriting guidelines, including lending limits and documentation requirements, are appropriate.
2. Review the PERK information and the scoping material related to this area including the PERK credit card operation alert letter, if applicable.
3. Determine whether the association has corrected deficiencies mentioned in prior examination reports and audit reports.
4. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.
5. In conjunction with the EIC or examiner(s) performing the board and management report reviews under Sections [260](#), [310](#), and [330](#), ascertain if any problems or concerns regarding credit card lending were noted.

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6. Review management information systems (MIS) delinquency and performance reports as well as board reports relating to credit card operations. This may have already been performed in connection with [Handbook Section 201](#). If so, coordinate with the examiner who performed that work. Determine if MIS and board reports are adequate and accurate. Use performance information to focus your review on higher risk or problem areas.

7. Using an appropriate sampling technique, select accounts for review. (See [Handbook Section 209, Sampling](#).) For associations relying on automated credit decisions, the review should include a check for compliance with underwriting policies by focusing on exception reports (accounts approved by individuals after rejection by the automated process).

8. Determine whether the association is adhering to the *Interagency Account Management and Loss Allowance Guidance* with respect to credit line management, over-limit practices, workout and forbearance practices, income recognition, loss allowance practices, and policy exceptions. Determine whether the credit card portfolio is experiencing any overall negative amortization. (See [Appendix A](#).)

9. Ensure that the required monthly minimum payment amount is sufficient to ensure at least a one percent principal balance reduction.

10. Determine if the association is properly classifying its credit card accounts in accordance with the *Uniform Retail Credit Classification and Account Management Policy*.

11. Assess the adequacy of any re-aging programs.

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12. Complete the [Credit Card Lending Questionnaire](#) or, if completed by management, verify for accuracy.

13. Determine whether the association has established adequate allowance for loan and lease losses for the credit card portfolio.

14. Coordinate with the examiner reviewing the compliance management function to ensure that the credit card lending area is adequately covered within the scope of compliance management oversight, and that there are no material violations of consumer lending laws that could impact the risk profile of the credit card portfolio.

15. If you find problems, deficiencies, or excessive risk in the performance of the aforementioned procedures, discuss the preliminary findings with the EIC or examiner(s) assigned to the asset quality area and expand the scope accordingly. Expanded procedures need to be sufficient to both verify and support the preliminary findings or indicate that the findings do not appear to be an area of concern.

16. Reconcile the credit card portfolios to the trial balance and Thrift Financial Report.

17. Review the validity of the accounting for residual interests in the securitization of credit card receivables and the effect of any recourse on the thrift.

18. Verify level of concentration risk and the effect on capital.

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19. Determine the overall level of credit risk in the portfolio by reviewing the association's internal or external credit score.
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20. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.
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LEVEL II

21. Expand sample of loans in portfolios where you note significant risks and/or deficiencies. Place specific emphasis on re-aged accounts, over-limit approvals, and declinations or approval of applicants per override.
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22. Expand the analysis of the internal loan review process.
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23. Expand the review of the scope and depth of work performed by internal and external auditors.
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24. Expand the review of the internal rating system and allowances for loan losses.
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25. Expand the analysis of the account acquisition and underwriting process.
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26. Review the organizational structure of the credit card area, including MIS, and the qualifications, capabilities, and expertise of its principal officers.

27. Summarize findings (including the reasons for expansion of scope), obtain management responses, and update programs and the continuing examination file (CEF) with any information that will facilitate future examinations.

28. Ensure that your review meets the Objectives of this Handbook Section and [Section 201](#). State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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