

January 25, 1994

Patricia Aarstol, Manager
GaPac Employees Federal Credit Union
2501 James Street
Bellingham, WA 98225

Re: Practice of Covering Member Overdrafts/NSF Checks (Your January 4, 1994, Letter)

Dear Ms. Aarstol:

You have requested a legal opinion regarding GaPac's practice of covering member's overdrafts. Without a complete description of GaPac's program, we are unable to give a legal opinion. We can advise you as to the controls that must be in place for the practice to be permissible.

As stated in a previous legal opinion, "(t)his office views the payment (honoring) by an FCU of a share draft written on an overdrawn share draft account as an impermissible loan unless an overdraft lending agreement exists between the FCU and the member." (Letter from Assistant General Counsel, Steven R. Bisker to Dennis Curtin, copy enclosed).

The NCUA Accounting Manual, Section 6150.7 (copy enclosed) sets out the options a credit union has in processing share overdrafts. We would suggest that you review it and make certain that GaPac is in compliance.

I hope that we have been of assistance.

Sincerely,

Richard S. Schulman
Acting Associate General Counsel

Enclosure

cc: Terry McGinnis, Reg. VI, Dir. Sup.

GC/MFR:bhs
SSIC 3600
94-0112