

RLSS Non-Sufficient Funds Check

When a check is returned because of insufficient funds, the steps taken to reverse the entry will depend upon the method selected for interest calculation. The primary difference between the two methods is the Activity Date that will be used. This Activity Date is important because the current period's interest is calculated based upon this date if your loan is set up with Daily Interest. The Activity Date is also especially important this time of year if you issue 1098's to your client as you need to correctly reflect interest that you have received during the year so reversing the entry in the correct calendar year is critical.

An Important Note: The following steps were developed using the assumption that the NSF check was *the most recently posted* activity.

If the loan is set up as Amortization method: Select Loan Activity, enter the appropriate loan number, tap enter. Select Print and print a copy of the Loan Activity History, since you will be reconciling the new balance to a previous one and will need to know the dates and amounts to be used in the next step.

From Loan Activity, Adjustments, make a reversing entry. Use the same activity date originally used when the NSF check was received as the activity date, and select repayment as activity type. Enter the original activity total as a negative number under "activity total". Also enter the interest as recorded on the original activity as a negative number under interest. This will also apply if there were any penalties, escrows, or miscellaneous fees recorded in the original activity. Be sure to reverse any accrued interest that may have been part of the original entry. Use the paid-thru date of the last good payment as the "new paid-thru" date.

Verify the new balance, which should revert back to the balance prior to the NSF check being posted as a repayment. Use the Notes section of the activity screen to record any pertinent information.

If the loan is set up as Daily interest method:

Select Loan Activity, enter the appropriate loan number, tap enter. Select Print and print a copy of the Loan Activity History, since you will be reconciling the new balance to a previous one and will need to know the dates and amounts to be used in the next step.

From Loan Activity, Adjustments, do an adjusting entry. Use the date of the last "good" activity as the activity date. Select repayment as activity type. Enter the amount of the payment as a negative number in "activity total". Enter the amount of interest charged when the payment was originally received as a negative amount in "current interest". Enter any other amounts as negative amounts in fees, escrows, etc., as originally recorded. Be sure to reverse any accrued interest that may have been part of the original entry. This should result in a minus principal amount which equals the amount of principal recorded in the original transaction. Use the paidthru date of the last valid activity as the new paidthru date for this activity.

Use the Notes section of the transaction screen to record any pertinent information. Verify the new loan balance – it should revert to the loan balance as it was prior to the NSF check being originally posted as a repayment.

NOTE: Although you may wish to record a fee under “NSF Fees” it is more reasonable to do so when the next payment is received. If you include it in the reversing entry, it will impact the balance, basically increasing the loan balance by the amount of the fee. By doing this, you will be charging interest on the fee, which is not normally an acceptable accounting practice. If the closing documents signed by the borrower allow interest to be charged on NSF fees, then yes, you may enter it now and increase the loan balance. Think of it this way: you cannot collect a fee from a check that was returned due to nonsufficient funds. The next time a valid repayment is recorded is the time to deduct the NSF fee from the activity total.