

From: jbind@firststatebank.biz [mailto:jbind@firststatebank.biz]
Sent: Monday, September 27, 2010 5:58 PM
To: Comments
Subject: FDIC Proposed Guidance on Overdraft Coverage

Jacqueline Bend CFO / Cashier First State Bank
1806 Stroble Avenue
Mendota, IL 61342-1272

September 27, 2010

Comments to FDIC

Dear Comments to FDIC:

By electronic delivery to:
OverdraftComments@fdic.gov

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429-9990

Re: Overdraft Payment Supervisory Guidance, FIL-47-2010, August 11, 2010

Dear Sir or Madame:

First State Bank has had an overdraft protection service for checking accounts for over six years. It is not a loan product. Our customers have the ability to opt out of the program at any time.

Our overdraft protection program is a service that allows our customers to avoid having a payment returned and incurring additional fees at those times when they have an accidental overdraft. The rules we apply for the program are consistent and fair. We generate letters for activation, non-qualification, excessive days of overdraft status, etc. These are all aimed at keeping our customers well informed on the status of their checking accounts.

We do not structure the program to maximize fees. We do not change the order of payment on transactions to generate additional income. We do not encourage our customers to use their overdraft protection. Our goal is to offer an alternative to having necessary payments returned and merchant overdraft fees incurred. Customers could experience the embarrassment and inconvenience of having these same merchants refuse service due to repeated returns. As you know, the merchants are able to represent payments twice in check format and once more in an ACH format. Each time this is done the customer could potentially incur a fee from both the merchant and the bank, with the merchant fees exceeding that of the bank.

We implemented the new Regulation DD (Truth in Savings) and Regulation E (Electronic Fund Transfers) as required. This was an expensive and time-consuming project that caused confusion among our customers despite our concerted efforts to make the communication as clear and

understandable as possible. We were extremely careful not to influence our customers' decisions in any way.

To introduce additional changes would cause even more confusion to our customers. The bank does not have the resources to put in place the proposed changes of FIL-47-2010. To monitor for excessive or chronic use (six overdrafts in a twelve month period), contact the customer in person or by telephone, counsel them on their financial choices, and at the same time be very careful not to unduly influence them in their decision making would be an impossible task.

This additional burden could bring the bank to a point where it may have to discontinue a program that our customers have come to expect. The result would be the return of all check and ACH transactions and our customers incurring fees much greater than those they currently pay.

If the FDIC determines it must adopt the proposed guidance please consider the following:

Eliminate the requirement that banks monitor for excessive or chronic use. I am certain our community bank is not alone in that we do not have the manpower nor technology to perform this burdensome task. We cannot incur the additional expense of hiring staff just in order to make the proposed calls advising the customer of alternative forms of handling their finances. This project alone would be costly. The majority of our customers are not available for telephone calls during the work week. We would be forced to track and follow up until such customers could be reached. Then once they are reached, our staff would have to follow some type of carefully worded script to avoid unduly influencing the customer. This scenario leads to confusion as the bank employee is limited in what they can say to the customer resulting in a very stilted, uncomfortable and ultimately unproductive conversation for both the employee and the customer. In addition to this, the bank would be forced to close accounts that require more than one contact session in order to reduce costs for the benefit of the majority of the customers. This would cause serious inconvenience to the type of customer who often has trouble establishing an account with a bank, and who will ultimately become the "under-served" or "un-served" consumers.

Exempt ad hoc overdraft programs from this guidance. Our program is a service we offer our customers. Such changes would damage our relationship with our customers as I mentioned above.

Eliminate the limit on total daily overdraft fees. These fees have been established in an effort to mitigate the associated risk; to deter customers from indulging in irresponsible financial behavior; to offset the costs incurred in the issuance and handling of the informative letters and notices. The fees are clearly communicated to the customers: at the time the account is opened; mailed annually in the service charge brochure; printed clearly and separately on their monthly statements; and made available through the online banking product as well as through the automated telephone teller system. All of these systems have operational costs associated with them.

Continue to allow banks to charge a fee for returning items paid by check or ACH. The return process is highly manual: an officer reviews the items; a return code is assigned; specific items are processed on the system; check images are printed and retained; occasionally a paper return cash letter must be mailed; ACH return items require compliance with extensive NACHA rules, including Written Statement Of Unauthorized Debits; and the list goes on. With this area in particular we are very diligent as we try to accommodate our customers as best we can, while adhering to the already oppressive number of rules and regulations involved. To eliminate fees for the return of checks and ACH items would once again result in the closure of accounts that are too costly for the bank to maintain.

In summary, we feel we are offering our customers the best possible service in preventing them from incurring greater fees by giving them an overdraft protection product to turn to in their time of need. Making this service prohibitively costly by adopting the proposed guidance as it stands can only result in either the elimination of the product, which ultimately would prove to be more costly to the customers, and/or closure of those accounts that become so costly to the bank we cannot continue the relationship. Both results are counterproductive to the best interest of the customers, the bank and the merchants involved.

I urge the FDIC to carefully consider this measure to ensure that the guidance does not impede my bank's ability to provide overdraft coverage services to my customers. If we are forced to abandon or significantly alter these services due to regulatory burden, the result could lead more consumers into becoming unbanked or relying on other products such as prepaid debit cards and check cashing services, which have higher fees and foster unsound financial practices.

Sincerely,
Jacqueline Bend, CFO / Cashier First State Bank
815-538-2265