

Luther Deaton, Jr.
Chairman, President & CEO

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July 9, 2004

Mr. Robert E. Feldman
Executive Secretary
Attn: Comments, Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Mr. Feldman:

I am writing regarding the proposed revisions to Regulation DD and Interagency Guidelines on Overdraft Protection Programs. We have reviewed the proposals in detail and applaud your efforts to standardize administration and communication of these programs for all financial institutions. Two of our banks (Central Bank & Trust Co. and Central Bank, FSB) have offered Courtesy Coverage (overdraft protection) since early 2001. Our third bank, Salt Lick Deposit Bank, began offering it in 2003. We now have more than three year's experience in dealing with the multiple issues addressed in both proposals. Based on the working knowledge we've gained, we would like to offer these comments.

Regulation DD Proposed Revisions
Periodic Statements

- Reflect total amount of fees imposed for overdrafts for the statement period and year-to-date
- Reflect the total amount of fees for returned checks for statement period and year-to-date

COMMENT: Rather than reporting fees paid, we recommend using the number of items overdrawn for the statement period and year-to-date. We believe using the amount of fees paid may prove confusing because those figures may not include adjustments caused by fee waivers and refunds. In our case, our statements would only indicate what was charged, rather than what was collected. Adjustments for fee waivers and refunds are maintained in separate files from the service charge routine. Updating the service charge file with the new data would create additional maintenance and expense for the Bank. It could also create confusion if some of the items had been refused, because the

customer had opted out of Courtesy Coverage or because they had exceeded their coverage limit and the Bank would not pay the item.

At this time, it is also unclear how long it may take for data processors to program the system for this information to appear on a periodic statement. We would suggest an implementation date in mid 2005, to give banks and their data processors time for proper testing to ensure compliance.

Advertising

- Misleading advertising describes a service solely as a protection against checks when the overdraft service may be imposed in connection with ATM withdrawals and other electronic fund transfers that permit consumers to overdraw their accounts. Do not state that the coverage protects bounced checks only when it also covers ATM/electronic withdrawals

COMMENT: We believe that all communications with consumers should be consistent, indicate what transactions are covered (checks, ATMs, POS, etc.) and disclose the customer's current balance without the Courtesy Coverage available limit. This allows the customer to make a conscious decision to exceed the available balance (and therefore, incur a fee) for each transaction.

Proposed Interagency Guidance on Overdraft Protection Programs

Safety and Soundness Considerations

- Overdraft balances generally should be charged-off within 30 days from the date first overdrawn. Some overdrafts are individually underwritten and supported by a documented assessment of the customer's ability to repay – in these instances the FFIEC Uniform Retail Credit Classification and Account Management Policy would apply. For corporate and small businesses, existing credit relationship may support exceptions to the 30 day charge-off guidance. The existence of extended repayment plans beyond the initial 30 days does not extend the charge-off period. Payments received after charge-off (to the allowance) should be reported as a recovery.

COMMENT: Currently, we collect 70% of the overdrawn balances that go past 30 days. Forcing mandatory charge-off and account closing at 30 days would adversely affect the Bank and customer. We believe the customer is best served when the charge-off occurs only when all collection efforts have been exhausted. If the customer has responded to the attempts to collect the overdraft within the

30-day window, the collector can arrange repayment without charging off the balance. However, if the account remains overdrawn for 30 consecutive days and we have not spoken with the customer, the overdraft protection should be terminated until the customer brings the account "whole" by making a deposit(s). If the customer has not corrected the overdraft within 60 days, it should be charged-off and disclosure made to the proper agencies. Customers should not suffer for the Bank's disclosure of adverse information to the credit reporting agency until all attempts to correct the problem have been exhausted. Imposing the mandatory charge-off at 30 days will adversely affect a consumer's ability to obtain a checking account at another financial institution.

- Monitor the program carefully on an ongoing basis and adjust as needed to account for credit risk. Identifying customers who are excessively reliant on the product or who may present an undue credit risk to the Bank and disqualify them from participation in the program.

COMMENT: We believe it will be very difficult to determine excessive or abusive usage of the program. Our experience has varied widely from customer to customer. What is normal for some would be excessive for those who simply cannot afford to pay the fees associated with heavy usage. The Bank carefully monitors its program and frequent abusers are identified through the collection process. Where necessary, customers are disqualified from participation in the program. Overdraft privileges are suspended at the 30th consecutive day to ensure that the next deposit will return the account to a positive balance. Each collector reviews his/her assigned accounts that are overdrawn 30 or more days.

- Overdraft losses (other than the portion attributable to overdraft fees) should be charged off against the allowance for loan and lease losses.

COMMENT: We recommend all fees charged in the last 90 days should be included in the charge to the allowance for loans & lease losses.

- When an institution routinely communicates the available amount of overdraft protection to depositors, these available amounts should be reported as "unused commitments" in regulatory reports and reflected accurately in risk based capital

COMMENT: Central Bank does not routinely communicate the available amount of overdraft protection to depositors; the ATM balance does not reflect this limit and our Call Center and electronic systems do not routinely report this limit. To do so would be confusing to the customer. As such, we also do not think the unused amount should be reflected as a commitment and considered in our risk-based capital calculation.

- Alert consumers before a non-check transaction triggers any fees where feasible (ATM).

COMMENT: It is not appropriate to single out ATMs for this disclosure when it cannot be provided for checks or POS transactions. We should treat the consumer in a consistent manner. Please note: our ATM receipt reflects a negative balance in the account if the withdrawal triggers an overdraft. Also, requiring a "prenotification" could be very difficult for transactions at other bank's ATMs.

- Consider daily limits (number and dollar amount of fees).

COMMENT: If the Bank institutes a daily cap, it could limit our ability to identify chronic abusers and to provide corrective counseling for them.

- Monitor overdraft protection program usage. Monitor excessive usage, which may indicate a need for alternative credit arrangements or other services and inform consumers of these available options.

COMMENT: Overdraft protection program usage is closely monitored. When excessive overdrafts occur in a day, the customer is contacted to provide assistance/counseling.

We believe these comments will provide some practical insight for regulators to use in developing their guidelines. Risk management and customer communications are vital to the success of any overdraft program. At Central Bank, we regularly collect better than 93% of all the fees charged for personal overdrafts and have averaged better than 90% collected since inception. Our management and Board of Directors receive monthly reports of activity, collection rates, charge-offs and related customer issues.

Again, we sincerely appreciate the opportunity to comment. If you would like to discuss any of these suggestions in more detail, please call me at 859-253-6184.

Sincerely,

Luther Deaton, Jr.
Chairman, President & CEO