



CITIZENS & NORTHERN BANK FIRST STATE BANK

February 19, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1343

Dear Ms. Johnson:

This comment letter is submitted in response to the notice of proposed rulemaking (“Proposed Rule”) and request for public comment by the Federal Reserve Board published in the Federal Register on January 29, 2009. The Proposed Rule would amend Regulation E, which implements the Electronic Fund Transfer Act, and seeks to provide consumers certain protections relating to the assessment of overdraft fees. The Proposed Rule would address issues regarding the ability of a financial institution to assess an overdraft fee for paying ATM withdrawals and one-time debit card transactions that overdraw a customer’s account.

We recognize that in some cases, we may have charged customers overdraft fees that either our customers did not anticipate or that the customers believed were disproportionate in amount to the value of the service received from us. However, experience shows customers generally do not expect to incur overdrafts and therefore are reluctant to sign up for formal overdraft loan programs. Yet these same customers appreciate the availability of an overdraft service when an overdraft does occur and the resulting ability to complete a transaction. In some cases, this service enables customers to avoid more significant adverse consequences, such as merchant fees for returned checks. We have found that this service is even more valuable to our customers as their means of accessing their deposit accounts proliferate through debit card and ACH transactions. At the same time, this increase in the types of debits that post to our customers’ accounts has made it more difficult for us to identify transactions that may cause overdrafts.

The Board has identified a number of issues in the Proposed Rule and, in some cases, has proposed alternative approaches to addressing them. We believe that the appropriate resolution of these issues is critical to our ability to continue to serve our customers effectively.

First, the Board has proposed that customers either be able to opt out of any overdraft service that assesses a fee or charge for overdrafts due to ATM withdrawals or one-time debit card transactions or that the customer be required to opt in to this service. We believe that the opt-out option will be more consistent with customer expectations.

The Board has also proposed alternative approaches to the relationship between the bank’s customer choice with respect to ATM and debit card overdrafts and other

overdrafts, including check overdrafts. Under one alternative the bank would be permitted to condition the payment of check and other overdrafts that were not ATM withdrawals or one-time debit card transactions on the customer's choice to have the financial institution pay overdrafts due to ATM withdrawals or one-time debit card transactions. Under the other alternative, the financial institution would be prohibited from imposing such a condition. As a practical matter, for Citizens & Northern and the vast majority of other financial institutions, there are extraordinary technological difficulties in allowing the partial opt out of ATM and debit card transactions while continuing to pay paper checks and ACH items.

Rather than imposing the partial opt out, we believe that the customer should be allowed to either have access to the overdraft services for all types of transactions or to opt out of the overdraft services solution altogether. A "partial" opt out is likely to confuse customers, whereas a simple "on or off" solution will be much easier for customers to understand.

In addition, the Board has proposed alternatives with respect to the pricing of customer accounts where the customer opts out. Under one alternative, the Board requires that the terms of the accounts for customers who opt out be the same as the terms for accounts for customers who do not opt out, effectively giving the customer an option to unilaterally change the price structure of the account relationship.

The other alternative would recognize that by charging for overdrafts, financial institutions are able to make other features of deposit accounts more attractive, including such features as minimum balances to avoid account maintenance fees, funds availability policies and rates paid on the accounts. We strongly believe that we should be able to vary the terms of accounts that opt out of overdraft fees to reflect the differences between customer accounts where the customer opts out and those where the customer does not. However, we believe that such differences should not be designed to coerce customer choices

Finally, we are pleased that the Board has recognized that the fact that a customer may have adequate funds on deposit to cover an ATM withdrawal or a one-time debit card transaction at the time that the transaction was authorized does not mean that those funds will not be withdrawn or needed to cover another transaction, and permitted the financial institution to impose a fee or charge for an overdraft resulting from such a transaction regardless of the customer's choice on whether on not to opt out. Frequently we authorize these transactions only to have the funds disappear due to another transaction before the authorized transaction settles. At the same time, we do not want to reject these intervening transactions for operational reasons and because there is always a possibility that the authorized transaction will not be completed as authorized.

Thank you for the opportunity to comment on this important matter.

Respectfully,



George Raup
Executive Vice President and
Chief Information Officer