

July 12, 2004

Jennifer J. Johnson  
Secretary/Board of Governors  
Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, NW  
Washington, DC 20551

Re: **Docket #OP-1198**

Dear Ms. Johnson:

On behalf of Carolina Bank, I would like to comment on the noted Docket, as it relates to Overdraft Protection Plans or Bounce Protection services, as offered by the banking industry.

With respect to your proposed regulations, I have the following comments:

1. The recommendation that any charge offs for non-payment of this service be charged against a bank's loan loss reserve, I feel is inappropriate. As you are fully aware, this is a fee-based product. It is treated as non-interest income. Since we do not reserve for overdrafts, it would, therefore, seem to be inconsistent to charge an income/expense account from which no income had been transferred into it.

At Carolina Bank, we assess the fee, and charge that fee back to the appropriate income account, should it not be collected. We have a separate charged off checking account that we use, should any monies that we advance be uncollected. Since no money is advanced through our loan general ledger system, we do not see how we should charge that against those accounts. We feel this time-honored system to be more consistent with the flow of income.

2. Your recommendation to also charge these advances off at thirty days, I also feel is a few days too soon. For those clients who only get paid monthly, thirty days may not be adequate. As an example, we use thirty-five days. Therefore, if an advance is made on the second of the month, and the employee has to be out of town and unable to make a deposit more timely, this does not have to go through the process of being charged off, shown as recovery, and reinstated.

We understand the need of the various regulatory agencies to create a safe and sound financial system and insure that abuses within that system are not tolerated. However, practical application of any proposed regulation needs to be thoroughly thought out as to the implication to the clients of banks, as well as the practical matter of managing these systems.

We designed our system ourselves in the hope of not having an onerous and abusive system that must be the centerpiece in the regulatory world trying to codify these operations.

We trust that you and others members of your oversight committee will take these and other responses in consideration in making sure that we have a reasonable, practical and workable set of guidelines to operate by.

Sincerely,

Robert Braswell

Robert T. Braswell  
President & CEO