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September 28,2005

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

Subject: Reducing Regulatory Burden in Banking Operations; Directors, Officers, and Employees;
and Rules of Procedure

Dear Mr. Feldman:

We appreciate this opportunity to submit comments on reducing regulatory burden relating to the subject regulations. We are a local community bank of \$213 million in assets and just over 100 employees with 8 branches located in non-metropolitan areas. We offer for your consideration the following:

Regulations Q and D, FDIC Part 329

The prohibition on the payment of interest on demand deposit accounts, the limited eligibility requirements for NOW accountholders, and the limits on the number of preauthorized transfers from money market and savings account found in FDIC Part 329 are duplicated in Regulation Q and Regulation D. Although very similar in content it is confusing to look to different regulatory authorities on the same subject.

The restrictions on preauthorized withdrawals from money market and savings accounts are outdated and labor intensive to administer. Internet banking and debit cards have revolutionized how consumers conduct banking transactions. Some bankers have suggested that if the limits are not removed, they should at least be raised. However, this means that transactions would still need to be tracked and counted to ensure the limits are not exceeded. Even if the limit equaled the number of business days in a month, the limit could be exceeded by a customer having multiple preauthorized transfers in one business day.

The combination of Regulation Q and Regulation D rules effectively prohibit partnerships and for profit corporations from earning interest on their bank accounts. Larger banks are able to work around these restrictions by offering money management services, such as repurchase agreements.

The rules for these types of investments are complicated and require significant work to maintain. They are often beyond the capabilities of smaller community banks.

Recommendation For consistency and ease of use, the joint regulatory agencies should adopt the same rules.

Recommendation Allow unlimited preauthorized transfers from money market and savings accounts.

Recommendation To level the playing field and to allow accountholders to choose the best banking products to meet their needs the restrictions on NOW account eligibility should be removed.

Regulation CC

This is a complex regulation. Determining whether or not an exception hold should be placed is often a judgment call made by the teller or the teller's supervisor. It is difficult to comply with the notice provisions. The format of the model notice is confusing with its multiple blank lines tied to one or more reason check boxes.

Under Section 229.10(c) checks drawn on the US Treasury, US Postal Service, state and local government, or cashier's, certified, and teller checks must be made "available for withdrawal not later than the second business day following the banking day on which funds are deposited." With the increase in counterfeit checks the availability periods are too short to protect banks against loss. Regulation CC allows banks to hold funds from deposits in excess of \$5,000 for an extended period on an exception basis. However, the first \$5,000 must be made available according to the bank's regular funds availability schedule.

New accounts are another area of higher risk. The regulation recognizes this by permitting extended hold periods on deposits made during the first 30 days. However, this provision does not permit extended hold periods on the first \$5,000 of US Treasury, US Postal Service, state and local government, or cashier's, certified, and teller checks deposited to the new account. The physical processing and return of unpaid checks takes at minimum of 5 business days. For example, a bank accepts for deposit a \$2,000 cashier's check on 9/19 and sends it overnight to the Federal Reserve Bank (FRB). FRB processes the check and sends it to the paying bank on 9/20. The paying bank receives it on 9/21. The paying bank determines the item will not be paid and sends it back to FRB on 9/22. FRB receives it on 9/23 and returns it to the depository bank. The depository bank receives the unpaid check on 9/26. This can take even longer depending on the use of correspondent banks in the clearing process.

Recommendation Review the maximum hold periods. Allow for longer regular hold periods on non-local US Treasury, US Postal Service, state and local government, or cashier's, certified, and teller checks currently subject to second day availability.

Recommendation Revise the exception hold notice to make it easier to use and more meaningful to the accountholder.

Recommendation To help banks limit their losses on potentially fraudulent items the hold period on large deposits should be revised to permit banks to hold the entire deposit, not just the amount greater than \$5,000.

Regulation O, FDIC Parts 337.3 and 349

Because of the very restrictive nature of Regulation O bank insiders find it easier to obtain loans from and maintain deposit accounts at other financial institutions. Some of the restrictions discourage individuals from serving on bank boards. The banking environment has changed and some of the issues originally addressed by restrictions in Regulation O no longer exist.

Part 337.3 effectively limits loans other than first mortgages and loans to finance education to Executive Officers to \$100,000. The requirement that loans to Executive Officers be payable on demand is unfair. These limits make it difficult for these individuals, who are generally excellent credit risks, to get loans at their own bank. Annual reports to the board by executive officers and principal shareholders of indebtedness to correspondent banks required under Part 349.3 are outdated. Bank insider relationships with correspondent banks have changed. The opportunity for an insider to obtain a loan at more favorable terms in exchange for selecting a certain bank to be the insider's correspondent bank is highly unlikely. The public disclosures required under Part 349.4 are only requested by bank auditors and examiners. Compliance with the disclosure rules does not adequately protect the privacy of bank insiders covered by this Part.

The dollar thresholds restricting the payment of overdrafts by Executive Officers and Directors found in Regulation O are not meaningful in today's dollars.

Although similar in content maintaining FDIC Parts 337.3 and 349 in addition to Regulation O is confusing and difficult to manage.

Recommendation Part 337.3 – Increase the limits on loans given to bank Executive Officers. In addition, these limits should be tied to an index and adjusted annually to maintain lending limits in current dollar values. Remove the requirement that certain loans be payable on demand under specified circumstances.

Recommendation Regulation O – Permit overdrafts, if any, by bank insiders to be handled no more favorably than those of any other bank employee. Alternatively, the threshold for inadvertent overdrafts could be increased from \$1,000 to \$25,000.

Recommendation For consistency and ease of use, the joint regulatory agencies should adopt the same rules.

Thank you for this opportunity to submit comments on reducing regulatory burden relating to Banking Operations, Directors, Officers, and Employees, and Rules of Procedure.

Sincerely,

Vicki L. Garrett
Compliance and Loan Review Officer