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March 16, 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 automated teller machine ("ATM") withdrawals and one-time debit card transactions that overdraw a customer's account.

We recognize that in certain cases, financial institutions may have charged customers overdraft fees that either the customers did not anticipate or that the customers believed were disproportionate in amount to the value of any overdraft service received from the financial institution. However, in our experience financial institution customers generally do not expect to incur overdrafts and therefore are reluctant to sign up for formal overdraft loan programs, and 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 economic consequences, such as merchant fees for returned checks or worse consequences. Without the automatic protection of our Overdraft Privilege program, customers will be more likely to revert to using paper checks at merchant locations, potentially resulting in overdraft charges and additional merchant fees. We have found that this service is even more valuable to our customers as the means of accessing their deposit accounts proliferate through debit card and automated clearinghouse ("ACH") transactions. At the same time, this increase in the types of debits that our institutions

must process and post to our customers' accounts has made it more difficult for our institution 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 at the time of new account opening (or upon request) will be more consistent with customer expectations. This mirrors the most effective programs already in place in the market and provides customers the opportunity to receive the service unless they determine that it does not suit their needs. It also enhances the relationship between the customer and the financial institution since it epitomizes the objective of institutions who strive to "do no harm" to customers by returning items unnecessarily.

The Board has also proposed alternative approaches to the relationship between the financial institution's customer's choice with respect to ATM and debit card overdrafts and other overdrafts, including check overdrafts. We anticipate serious difficulty with implementing the technology necessary to differentiate between these types of transactions. Since we rely on third party vendors to process these transactions, there is no assurance that we can comply with this requirement at any time in the near future. Additionally, the cost of implementing this requirement will pose further burden on us during a time of higher FDIC assessments and loan losses.

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. In addition, a "partial" opt out is likely to confuse customers and lead to the need for extensive explanations as to the different types of transactions that are or are not covered by the customer's choice with respect to an opt-out decision. 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 financial institutions

should be able to vary the terms and product design of accounts whether the customer opts in or opts out. Further, we believe that such differences should not be designed to coerce customer choices. In fact, allowing such price/product differentials would remove any financial incentive that depository institutions might have to attempt to influence such choices.

Finally, we are pleased that the Board has recognized 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 find the funds have been applied 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.

Sincerely,

Alan O. Austin
President
New Mexico Bank & Trust