



First Community Bank Building • 1300 N. 78th Street • Kansas City, KS 661 12
Mailing Address: **P.O.** Box 12067, Kansas City, **KS** 661 12
(913) 299-6200 • FAX (913) 299-6255

July 13, 2004

Ms Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 2055 1

RE: Docket Number OP-1198

Dear Ms. Johnson:

I am responding to the request for comment on Interagency Guidance on Overdraft Protection. My response is on behalf of First Community Bank in Kansas City, Kansas.

Our bank began using the Strunk & Associates Overdraft Privilege Program in March, 2004. We selected that program based upon the reputation of their product, their longevity in offering the product, discussion with a sampling of their clients, and with our legal counsel. We also weighed the potential benefits and risks associated with offering Overdraft Privilege and developed policies and procedures to effectively manage the program. We utilize many of the practices recommended by Strunk & Associates, but also developed our own best practices. For example, our minimum deposit to open a new account is \$200. The recommended opening balance is \$25 and we decided to continue with our established policy of \$200. It is not our intention to open accounts for the purpose of generating fees and then have to turn around and charge them off to close them. We are interested in establishing a lasting banking relationship with our customers.

The Overdraft Privilege Program enables us to automate a portion of the discretionary payment of insufficient items into overdraft status. We have had very few complaints and in fact several customers have thanked us for paying items rather than returning them. Our NSF fee is \$20 per item and we do have a daily overdraft fee of \$5, if the account remains overdrawn for three consecutive business days. However, this fee is generally considerably less than returning the item, still charging the \$20 fee, and then having the merchant, etc. charge another fee of up to \$35, reprocessing the item, and so forth. Furthermore, this is typically less expensive for the consumer than turning to a payday lender, pawn shop or check cashing facility. This should be a benefit, rather than a detriment to the consumer. We are not against having "warning messages" at ATM's or POS terminals, although it may be difficult to incorporate given the vast array of products and fee structures offered by institutions. This is predicated on the ability of ATM and POS vendors to generate such messages. It is not our intention to encourage irresponsible consumer behavior.

Safety & Soundness Considerations – We recognize that paying more accounts into overdraft status does increase our institution’s credit risk. As stated above, we developed policies and procedures to address and mitigate various risk. We are aware that more DDA accounts will be written-off and have established a Reserve for Overdraft Losses. It operates in a manner similar to the Reserve for Loan Loss. There is a formula for funding the account based upon the aging of overdrafts and net charge-offs. This reserve is monitored by senior management and approved by the bank’s Board of Directors on a monthly basis.

We follow Strunk’s recommendations for mailing notices and letter to customers in addition to the regular NSF and overdraft notices that they receive. Overdrawn accounts are charged-off at the end of 60 days. At this point, we have 100% of the balance reserved based upon our formula. We consider this to be prudent risk management practices. The FIL contains a recommendation to charge-off overdrafts after 30 days. This is too soon because some customers only receive monthly deposits. It may be detrimental to the customer and the bank to charge-off the account too soon. According to information provided by Strunk & Associates, collection efforts are vastly improved by giving the customer an additional 15 – 30 days to bring the balance positive. Accounts are monitored and those customers who do not make timely deposits are disqualified from future participation in the program. As long as a system is in place to monitor these accounts and reserve for them, a 45 to 60 day time frame seems more reasonable.

Customer Education and Disclosures – The materials provided by Strunk & Associates are easy to understand, state that the program is purely discretionary and do not appear to mislead the customer. Furthermore, the program applies to “free checking” accounts as well as regular checking and NOW accounts. There does not seem to be a benefit to separating the program from “free checking” accounts. The materials also disclose that fees may be imposed for transactions other just checks. A comment was made to disclose the order in which items are paid. This seems over burdensome to the bank and confusing to the customer, especially if the customer has accounts at several financial institutions. The average consumer may not recall the order of payment for checks, ACH, POS, ATM transactions, online bill payments, etc. and they probably won’t carry the disclosures with them. Typically, they will not be standing at an ATM or POS terminal trying to sort this out and also figure out what outstanding checks might be paid as well.

If our customer performs a balance inquiry at an ATM it does not include any ODP availability, therefore it is not misleading them regarding their account balance. They may withdraw funds however, subject to the established daily withdrawal limit and also subject to their ODP limit. The balance disclosed appears to be an IT vendor issue. Regarding notification each time the product is used, we send out overdraft notices on a daily basis and that has always been our standard practice. We also send out additional mailings based on the timeline provided by Strunk & Associates. Since the customers already receive various notices when checks are paid or returned and/or their account is overdrawn, there does not seem to be a need for further disclosures the first time the ODP limit is accessed.

Daily limits are covered by the ODP limit. It does not seem reasonable to limit the number of NSF’s paid or daily fees to be charged. This is a function of consumer behavior. The notices and letters keep the customer informed. The limits set help protect both the institution and the customer. It also should not be the responsibility of bank staff to monitor customer usage of ODP and then counsel them. Many customers would be offended by this.

We at First Community Bank believe that Overdraft Privilege provides a beneficial service to our customers. We have policies and procedures in place for qualifying customers, providing disclosures, risk assessment and mitigation procedures, managing overdrafts and collection efforts, notices and letters as well as reserving for potential losses. Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads "Carol S. Waggoner". The signature is written in a cursive style and is positioned over a light gray rectangular background.

Carol S. Waggoner
Executive Vice President
Chief Financial Officer