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ROCKWALL
SOUTH ROCKWALL
ROWLETT

500 South Morgan
Granbury, Texas 76048

Jimmy Campbell
President/CEO
Direct Line: (817) 573-5902
Fax: (817) 579-0268
e-mail: jcampbell@communitybank-tx.com

August 5, 2008

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

Re: Proposed Regulation AA Amendments

Ms. Johnson:

Community Bank is a State, Member bank with assets of approximately \$425,000,000, nine (9) branches, and over 21,000 deposit transaction accounts. The bank has had an automated overdraft process for over 10 years, and I would like to take a moment to discuss the rationale behind our decision at that time to automate this labor intensive process and assume some risk.

In 1997, the bank determined it would be in its best interest to offer a "no service charge" checking product. In making that determination, the bank felt that there would be a loss of service charge income, as well as an increase in check volume and number of accounts. Therefore, management began to determine what processes could be automated/streamlined in order to reduce the costs associated with the anticipated higher costs. It was determined that, along with automating the overdraft process, other services such as check imaging, internet banking, and voice response banking should be implemented in a timely manner to reduce the costs, while continuing to provide the depositor with a high level of service. The bank does charge those customers who use or require an unusual level of service for their account, such as those who call daily for their account balance, those who wish to place a stop payment on a check, and those who write insufficient checks. But there is no charge for those desiring and using the basic deposit services. And the voice response, internet banking, and bill pay services are provided at no fee.

By automating the overdraft process, the bank avoids many labor intensive, risky processes associated with the handling of the insufficient item, saving literally hundreds of man hours each year. And, it is very important to mention that the bank charges the same fee whether the insufficient item is paid or returned. By paying the item, the bank is assuming a risk in the ultimate collection of that insufficient item. The bank management gathered a large amount of data and determined that it could assume a risk of \$300 - 500 per account, following a minimum amount of time after account opening for the automated overdraft amount to be assigned. We do not advertise or promote this process. The depositors are made aware that the assigned amount is available for their use. And, at the same time, they are informed of the fee associated with the paying of an insufficient item.

I think it is important to discuss the positive impact of the automated process on the customer. First, the amount of the overdraft limit is assigned and made a part of the deposit system rather than made individually each day per item by a human. Should the employee assigned to service an account be absent from work, the system continues to pay the items per the assigned limit. Second, the customer does not have to pay the returned check fee assessed by the retailer (generally greater than the bank insufficient check fee), nor is the

customer's name placed into an automated check verification system as a writer of insufficient checks. In the time period since we automated the process, I have had perhaps five (5) phone calls complaining about insufficient check charges due to a misunderstanding of the amount that was available to the depositor. In each case, I offered the customer the option of removing the overdraft limit to avoid any future confusion. That offer has been declined on 100% of the calls I have received. The customer acceptance is very high for this service.

I think it is truly unfair to make two (2) very important assumptions about the depositing consumer:

- First, that the consumer does not know that the check(s) are insufficient and there won't be a fee for handling that check. The majority of our customers are educated and very aware of costs associated with doing business. Of our 21,000 accounts, almost 16,000 are "no service charge" accounts. Year to date 2008, 5,723 of the 16,000 accounts have had an insufficient check, with only 1,339 of those being only one (1) check during that time period. 2,725 (17%) of those accounts have had at least one (1) insufficient check per month year to date. Those customers are users of the overdraft product, not victims.
- Second, that the bank should take the responsibility for making certain the customer reconciles the account on a timely basis each month following the receipt of the bank statement. If/when the bank makes an error, all fees are readily returned to the customer.

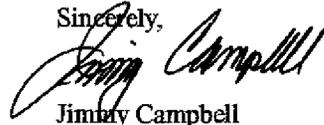
Regarding the sequence in which insufficient checks are paid, we have made the decision to pay the checks in check number sequence, making the assumption that the lowest numbered check was written first. There is no perfect answer to this question; however, I think it safe to say that, based on the small percentage of number of accounts which write multiple insufficient checks, the payment order question is not of major significance.

Community Bank has never advertised or encouraged its customers to write insufficient checks. Just the opposite is the case through the providing of instant access through voice response or the internet of the account balance or the paid items to date on each account, without fee per inquiry.

The amendments, as proposed, would require a major, costly modification to our demand deposit system, requiring months of planning, programming, and testing prior to implementation. The total cost of that modification would eventually be passed along to all of the depositors, not just to the 17% regular users.

The bank appreciates the opportunity to comment on the proposed changes and would respectfully request that the proposals not be approved.

Sincerely,



Jimmy Campbell
President/CEO