

ARMED FORCES BANK

of California

August 1, 2008

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

RE: Comments on Proposed Rule on Overdraft Fees, Docket No. R-1314

Dear Ms. Johnson,

We are opposed to the proposed rules amending Regulation AA as it applies to overdraft fees. We believe the current regulations require sufficient disclosures to protect consumers should they overdraw their account. Additional regulatory requirements will only add to the overburdened regulatory environment in which financial institutions must operate. These rules will be costly for small and mid-size institutions to implement and the added cost will ultimately have to be passed on to the consumer. Additionally, the technology requirements will create serious difficulties for small and midsize financial institutions to execute, putting them at a competitive disadvantage with larger institutions.

The practice of covering overdrafts, historically, has been a way to accommodate good customers. With the advent of ATMs, ACH payments and debit cards, it has become easier for customers to unwittingly overdraw their account. In response, financial institutions have extended the practice to virtually all customers in an effort to retain customer relationships. Covering an overdraft can save customers the embarrassment of a returned check as well as the added merchant fees. Given the choice, most customers would gladly pay an overdraft fee to have their check paid.

Armed Forces Bank of California is a small financial institution. Our customers are primarily military, many of which are deployed outside of the country. These service members do most of their banking electronically. Many have families at home and the spouse must manage the finances in the service member's absence. Furthermore, a significant number of our customers are young, newly enlisted service members who have little or no financial management experience. In both situations, there is a higher probability that an overdraft will occur. While we do offer overdraft protection via a pre-approved line of credit and free automatic transfers from a savings account, these services alone are not sufficient to accommodate all of the customers we serve. If we did not cover overdrafts, more of our customers would be tempted to use a payday lender to pay their outstanding bills.

Our overdraft fee is disclosed to all of our customers when they open an account. Therefore, our customers know up front that they must keep sufficient funds in their account to cover all debit transactions. If there are not sufficient funds in the account, they will be charged an overdraft fee. The fee is the same whether a check is paid or returned. We do not promote paying overdrafts because it is not a given. Overdrafts are paid on a discretionary basis and customers should not assume that an overdraft will automatically be paid. The proposed "opt-out" rules will cause customers to view the payment of overdrafts as a contract rather than an accommodation.

The proposed rules will not diminish the number of people who overdraw their account. Customers who do so routinely know the consequences in advance and choose to pay the fees. They do not need repeated notices to opt-out of something they have chosen to accept. What they need are alternatives to help them out of a poor financial situation. It is ultimately the customer's responsibility to know how much money is in his or her account. This information is available more readily than ever. Customers can access their account information by phone, Internet, and ATM virtually 24-hours a day, 7 days a week, 365 days a year. Financial institutions should not be required to make sure a customer wants to have an overdraft item paid when the customer had all the necessary tools to make an informed decision when the transaction was made.

The partial opt-out for covering ATMs and debit cards is not necessary. A customer does not have to use an ATM or a debit card to have a bank account. Customers choose to use them because they are convenient. This does not relieve customers of the responsibility to know whether there are sufficient funds in their account to cover their ATM and debit card transactions. Again, customers can easily obtain their account information and can make that determination.

Lastly, the technology changes that our bank would need to make, given the change is feasible, would be yet another regulatory expense that we will have to pass on to our customers. Raising fees is not something we wish to do.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Giles", written in a cursive style.

Don Giles
President and CEO