

**From:** "Sarha S. Smithley" <Sarha.Smithley@starfinancial.com> on 08/04/2008 08:25:03 AM

**Subject:** Regulation AA

Re: FRB Docket No. R-1314; OTS Docket No. OTS-2008-0004;  
Unfair or Deceptive Acts or Practices; *73 Federal Register* 28904;  
May 19, 2008

Thank you for the opportunity to comment on the proposed rules to reform credit card, and overdraft practices. I am particularly interested in the recommended changes to overdraft protection.

- Allowing customers to opt out of certain types of overdraft coverage would add confusion as to when they are covered and when they are not. As payment systems continue to evolve, they are becoming more complex. Some retailers, such as Wal-Mart, allow customers to write checks, but convert the payments electronically through an automated clearing house. Consumers may think their payments are covered if they have overdraft protection for checks, but their payments would not be covered because they were actually electronic. This confusion regarding coverage could lead to additional overdrafts or return checks, adding additional costs to the consumer from merchants.
- Only 3.1 percent of our customers have chosen to opt out of the service, which demonstrates that consumers value the added protection.
- The overdraft fee is intended to serve as an incentive for customers to keep their accounts balanced and covers the cost financial institutions incur when the service is activated. Consumers have never had more channels to verify their balance, including most available 24/7, such as automated telephone banking, online banking and ATMs.
- The option to opt out of overdraft protection is available and made known to customers. After an account has been opened for 60 days and if it meets specific requirements, overdraft protection is activated on the account. Customers are notified of the available protection and the option to opt out. Customers also receive letters each time the overdraft protection is used, which again informs them of their right to opt out of the service.
- STAR, like the majority of the banks across the country, invests significant resources on software design, support and upgrades with its vendors. Any changes to the system require considerable advance lead time and substantial investments of time and money to change. If the changes could be made, the modifications would require more supervision after implementation, increasing operating costs.

## **Conclusion**

Overdraft protection service is a courtesy offered to a select group of consumers in good financial standing. Overdrawing an account is reasonably avoidable when consumers monitor their balances. Opting out of certain types of coverage will add confusion as to when consumers are covered and when they are not. This confusion of coverage could lead to additional overdrafts or return checks, adding additional costs to the consumer from merchants.

Sincerely,

Sarha Smithley  
Account Representative  
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