



FIRST NORTHERN BANK

August 4, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Regulation AA; Docket No. R-1314
Regulation DD; Docket No. R-1315

Dear Sirs and Madams:

We wish to take this opportunity to comment on the rule proposed by the Federal Reserve Board (Board) and the Office of Thrift Supervision (OTS) involving overdraft protection services. First Northern Bank has provided overdraft protection services to its customers since 2004, and we believe that we have acted in the best interests of our customers by making this service available.

In 2005, the Interagency Guidance on Overdraft Programs was issued and First Northern Bank agreed with and complied with that guidance. We are, however, concerned about the current proposed changes and the impact these changes would have on the Bank and its customers. While we understand that the proposed rules are an attempt to protect consumers that frequently overdraw their account, we do believe that these rules may have an adverse impact on our customers.

We currently offer our customers the right to opt out of the overdraft protection program at the time the account is opened or at any other time they choose after the account is opened. We provide a disclosure that fully explains how the program works, what the charges are, and other overdraft protection services that the Bank offers. The disclosure also includes verbiage intended to discourage the customer from routine overdrafts. In addition to the disclosure, all overdraft protection options are discussed with the customer at account opening.

We believe that the right to opt-out proposal will confuse customers. Our customers are charged a fee regardless of whether a debit is paid creating an overdraft or returned for insufficient funds. This rule may lead the customer to believe that if a check is returned, there will be no fees assessed. In fact, by choosing to opt-out, the customer may be more harmed because they may also incur fees and penalties from the recipient of the check and suffer embarrassment for the return of the item.

Banks have always had overdraft fees. This is nothing new and customers are very aware of these fees. It is the customer's choice. Customers can easily avoid overdraft fees by keeping track of the balance in their account. Today customers have more current information than ever before and can easily obtain their balance through Internet Banking, by telephone, at the ATM, and other means.

As far as a partial opt-out for overdrafts resulting from ATM and POS transactions, this will most likely cause additional confusion for our customers. First of all, a customer may assume that if they select a partial opt-out then all other items will be automatically paid. And this would be an understandable assumption even though the Bank clearly discloses that we are not obligated to pay all items presented for payment against insufficient funds.

Customers have come to heavily rely on their debit card for POS purchases. How will the partial opt-out benefit the customer who is standing in line waiting to purchase a cart full of groceries only to be denied authorization because they miscalculated their account balance or the deposit they made in the night drop hasn't posted to their account yet? There are many factors involved in a debit card transaction and a customer may not consider those factors at the time of their transaction. A deposit made earlier in the day may not have posted to their account yet, there may have been an item charged to their account that they're unaware of, or the merchant obtained authorization for an amount that exceeds the actual transaction amount. Under these circumstances, the customer would most likely blame the Bank and consider this to be an unfair practice.

Finally, a partial opt-out would not only be very difficult to explain to a customer, it may be impossible for a bank to implement because of system limitations. Often banks cannot avoid paying overdrafts caused by ATM and POS debit card transactions, regardless of whether overdraft service is provided.

The last proposal we would like to comment on is assessing fees on overdrafts caused by debit holds. There are other factors, such as network systems, merchants, and debit card rules, involved in a debit card transaction that are not controlled by the bank. Once a debit card transaction is authorized, the bank assumes responsibility for that payment regardless of when the transaction actually posts to the customer's account. In some cases, merchants obtain authorization for an amount that exceeds the final transaction amount and a hold is placed on that amount pending the actual posting of the transaction. We believe that the passing of this proposal would complicate the issue further and place unnecessary and unfair burdens on the bank. Complying with this proposal would require a manual review

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process to determine exactly how the overdraft occurred and that would be quite costly to the bank. **We simply ask that you look at this more closely before making a final decision.**

In conclusion, we ask that you consider the fact that First Northern Bank has not received any customer complaints about its overdraft protection program. Instead, we believe that our practice of paying overdrafts is nothing new, that our customers expect this service and benefit with the knowledge that their checks will be paid and their debit card transactions will be authorized. Although we understand the intent of the proposals, we think it will accomplish the opposite. We believe that the proposed rules will cause more confusion for the customers and will be perceived as misleading and unfair. Today's consumers do not mind paying for convenience, and with overdraft protection, they have choices.

Thank you for the opportunity to comment on the proposed issues.

Sincerely,



Sally J. Galindo
VP/Compliance Manager
First Northern Bank