



Member FDIC

City Bank
TEXAS

Cory T. Newsom
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

5219 City Bank Parkway
P.O. Box 5060
Lubbock, Texas 79408-5060
Phone: 806-792-7101
800-687-2265
Direct: 806-771-3226
Fax: 806-771-4535
cnewsom@citybanktexas.com

www.citybankonline.com

August 5, 2008

VIA E-MAIL

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

RE: Docket No. R-1314
Regulation AA Amendments

Dear Ms. Johnson:

The following comments are submitted on behalf of City Bank, a state chartered community bank with headquarters in Lubbock, Texas. By separate letter, comments have been filed addressing the issues in Document No. R-1315 relating to amendments to Regulation DD. That letter and the comments therein are incorporated by reference into this letter.

City Bank offers overdraft privilege to its customers. Its program is very similar to other programs offered by community banks around the state of Texas. Our customers like the product. In fact, last year we had minimal negative comments out of millions of transactions. We have also found that a wide variety of customers use this product. Our headquarters is located in a university town. We find that not only students but also professors avail themselves of the important, inexpensive protection afforded by our "occasional overdraft privilege service."

We would strongly suggest to the Federal Reserve Board that overdraft privilege, as it is offered in community banks, does not constitute or incorporate unfair or deceptive acts or practices. Furthermore, we believe that the proposed changes to Regulation DD adequately address any perceived problems for consumers with regard to overdraft coverage.

First, there is no "substantial injury" to consumers through these programs. Our fee for returning an insufficient funds item is exactly the same as the fee for our overdraft privilege program. There are no additional costs to the consumer. We would strongly suggest that consumers are benefitted rather than harmed by the protection that we bring to them.

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Next, overdrafts themselves are readily avoidable by our customers if they only exercise prudent banking practices. Our bank, like other community banks in the state, is active in consumer financial literacy programs. In addition, we offer an array of products designed to assist our customers in tracking and supporting their accounts. This includes free voice response services so that customers can find out their current balance and the status of payments, free online banking, and an array of other services.

It is true that the occasional customer abuses overdraft privilege. In that event, we offer that customer a no interest "fresh start" loan to pay off their account. In addition, we assist them with personal counseling so that they can learn better how to manage their account in the future.

There are significant countervailing benefits for our customers in having their occasional overdrafts covered with a single small fee. The benefits are quite apparent for hot checks. The customer avoids the additional costs of the merchant fee, criminal prosecution, purchasing a money order to replace the item, and an adverse impact on their consumer reports. However, there are also countervailing benefits in the area of debit card usage. Our customers are able to use their debit cards when they travel without fear of an inadvertent overdraft. In addition, they can avoid the inconvenience and embarrassment of a rejected transaction at a restaurant or grocery store. We find that a significant number of our transactions occur not as discretionary spending but as very important transactions for our consumer base.

We believe that our fee is fair and modest. As noted above, it is the same whether an item is paid or returned.

As noted in our letter regarding Document No. R-1315, we would strongly oppose mandating partial opt-out. The logistics of managing the software changes and data processing are costly and extremely complex. We are also concerned that customers who opt-out will be confused when a debit card transaction is paid as a result of a stand-in situation. Although the proposals acknowledge that payment of an item due to stand-in when the bank is not on "real time" should not be a violation of the rules, customers are not likely to understand the nuances of data processing. In our part of the state, there are significant risks due to tornadoes and other natural disasters that can result in power outages and the need to utilize stand-in authorization. Thus, we have significant concerns relating to our public relations when a natural disaster results in a customer accessing their funds as needed but results in an NSF charge.

Similarly, debit holds present dilemmas for banks. It has become common among some convenience stores/gas stations for a preauthorization to be submitted for \$1. However, the customer may pump \$100 in order to fill their tank. The bank is committed, due to the preauthorization, to honor the transaction. However, it may inadvertently create an overdraft.

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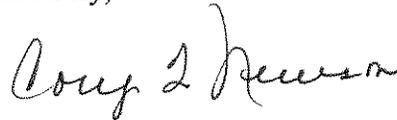
The same public relations dilemma is posed by this transaction when the opt-out customer is presented with a periodic statement reflecting an NSF charge in that event.

City Bank, like other institutions, has amended its periodic statements in accordance with Regulation DD to report to its customers the NSF fees for the statement and for year to date. We believe it is worthy of note that despite this information on the statement, we have received no complaints about the NSF charges nor have these triggered opt-out action by our customers.

In conclusion, we strongly urge that this proposal be reconsidered and that appropriate, modified changes to Regulation DD be implemented in their stead.

Thank you for this opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads "Cory T. Newsom". The signature is written in a cursive, flowing style.

Cory T. Newsom
President/CEO