

From: Central Bancshares, Inc., Greg Kistler
Subject: Reg I I - Debit card Interchange

Comments:

January 31, 2011

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

Dear Jennifer Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

I am the President and CEO of both Central Bancshares, Inc., a four bank holding company based in Muscatine, IA, and Central State Bank, it's lead subsidiary. We operate in the communities of Muscatine, Coralville, Kalona, Washington and Wilton in Iowa, and in Galesburg and Peoria in Illinois. We have approximately \$625 million in assets and 200 employees. We are leading agriculture and small business lenders in our markets, and service over \$150 million in residential mortgage loans that we have originated.

I am writing to express my opposition to the proposed rule. Simply put, I do not believe the safe harbor for small banks will work. Market forces will result in small banks being forced to accept the same pricing as the largest nationwide banks.

We currently offer totally free checking to our customers. We do charge overdraft fees, but have tried to avoid most types of nuisance fees and provide truly free checking. If we lose 75 to 90 percent of our interchange income, which currently approximates \$1 million, how are we to make up for that? Frankly, I don't know the answer to that yet, but I do know that free checking and other subsidized services are made possible by that interchange income.

I would respectfully suggest that the Board exercise discretion to the fullest allowed under the statute, and should include consideration of network fees, the cost of inquiries and disputes, fraud losses, fraud prevention costs, capital investments, and a reasonable profit.

As a matter of principle, I believe that government price controls do not work, that they are inappropriate for debit card transactions, and that there will be numerous unintended and negative consequences to community banks, and the consumers and small businesses that they support.

Perhaps this is not under the Board's authority, but rules should be promulgated that prohibit large retailers from steering transactions away from small banks, and that the spirit of safe harbor for small issuers be made a legal requirement.

Thank you for considering my comments.

Sincerely,

Greg Kistler
President and CEO
Central Bancshares, Inc.