

From: Hardin County Savings Bank, Donna M. Lawler  
Subject: Reg II - Debit card Interchange

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Comments:

Date: Feb 01, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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February 1, 2011 Division of Reserve Bank Operations and Payment Systems Board of Governors of the Federal Reserve System 20th Street and Constitution Ave, NW Washington, DC 20511 Re: The impact on Community Banking from Provisions of Section 1075 of the Dodd-Frank Act related to Debit Card Interchange Fees To Whom it May Concern: I am very concerned about the impact on Community Banks from provisions of Section 1075 of the Dodd-Frank Act related to Debit Card Interchange Fees. When I started my career, almost 40 years ago, our bank only dealt with cash and checks. Then credit cards slowly moved into the system to replace a small portion of our check activity. Today many of our customers use debit cards and are carry minimal cash. We have provided debit cards to our customers for several years even though we knew this program would be a loss, but we felt the usage would grow which it did. Our gross income is approximately 51 cents per transaction. This allows HCSB to make a reasonable profit for providing a service to our customers. Also, it allows us to offer this service with no transaction or annual fees to our customers. Per the proposal, small banks are not to be affected by the proposal. This is an incorrect statement. Small banks must participate with Visa and MasterCard to provide the card and the operation system for the card to work. Small banks must pay Visa or MasterCard for the service and must pay other internal operation costs, including staff payroll. Our card processor has given us an average interchange income for the past year and a projected interchange income after this provision is enacted. HCSB's income per month will be reduced by \$5700.00. Since our customers want the cards, we will not get out of the program. We will seek to charge our customers for the service that once was free. I understand the merchant's complaint of paying fees. But I have a problem with the merchant's arguments. Most local merchants do not want to accept checks. Checks represent a certain amount of risk. Debit cards guarantee the merchant the money will be deposited to the merchant's account. They also do not accept any fraud responsibility. This weighs completely on the financial institution that issued the card. We have watched as signature

based transactions are done with stolen cards and the signature is completely different, yet we stand the loss, not the merchant who could have verified the signature easily at the time of purchase. In any case, Congress has mandated the Federal Reserve Bank to develop a fair charge for the use of debit cards. Based on our information, the cost to provide the card is 30.5 cents not 7 to 12 cents. I appreciate the opportunity to give my thoughts. Sincerely Donna M Lawler Senior Vice President, Operations Hardin County Savings Bank