

From: Freestar Bank N.A., David Kuhl
Subject: Reg I I - Debit card Interchange

Comments:

February 2, 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.

As the President and CEO of FREESTAR Bank, N.A., a \$425MM community bank in Central Illinois, I am writing to share with you the negative impact the Debit Card Interchange Fee price fixing will have on our institution, our customers, and our communities. We have thirteen branches in Pontiac, Champaign-Urbana, and Bloomington Normal IL as well as in several small farming communities surrounding those cities.

In December of 2010, we earned \$30,000 in interchange fees for the month. On December 21st, we lost \$21,000 due to debit card fraud in the 10 minutes it took our servicer to detect and prevent this fraud. Under your pricing scenario, those fraud costs do not count as a cost of business. Under your pricing proposal, in the month of December we would have earned \$7,500 and lost \$21,000 for a net loss of \$13,500. Not a very enticing business model.

Based on your proposed pricing, our bank's net income will drop by \$275,000 in 2011. We will attempt to recapture that lost income through increased fees to our customers, lower interest on deposits, higher interest on loans, or eliminating five employees. But not all is lost, as I'm sure the retailers who will enjoy this profit windfall will lower prices to the consumer or will be able to hire the employees I lay off. What do you believe the odds of that happening are?

The Board should exercise discretion to the maximum permitted under the statute including all true costs in the calculation of the fee: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; and a reasonable profit. Failure to do so is a serious injustice to the very entities that have built the system that allows these transactions in the first place.

The statute attempts to exempt an institution of my size from this price control, but economic law will hijack this attempt and transactions will be driven to the lowest cost by the same retailers who will benefit from this price fix. Institutions such as mine will be forced to match the lowest cost or risk losing market share.

For the reasons stated above we are opposed to capping interchange fees at 7 or 12 cents. It will have a significant negative impact on our bank, our customers and our operations. Your implementation of a practical and just price for this valuable service will be the difference between the potential disappearance of community banks such as mine or the continuation of the community banking model that drives job growth and economic growth in America today. Please choose the latter when you make your decision.

Thank you for giving me the opportunity to address the serious concerns we have with your proposal.

Sincerely,

David Kuhl
Freestar Bank N.A.