

From: Paducah Bank, John Durbin
Subject: Reg I I - Debit card Interchange

Comments:

February 11, 2011

Jennifer J Johnson
Secretary, Board of Governors of the Federal Reserve System
20th St and Constitution Ave, NW
Washington, DC 20551

Dear Jennifer Johnson:

It was late in the day when I sent the first comment letter yesterday. Re-reading I noted several typos so I am resubmitting the letter again today. Sorry about that.

We at Paducah Bank in Paducah, KY (a \$525 million community bank in Western Kentucky) strongly encourage you to delay your final interchange rule and if need be request the delay from the banking committes within the House and Senate and if need be from the President himself. We realize your proposal was a very difficult task and you were attempting to comply with the mandate within the Dodd-Frank Act, but your proposal goes way too far and would force us to lose money on every use of the debit card by our customers. The "Durbin Amendment" was created without proper study and consideration. As passed, it is just bad law with zero guarantees of helping the consumer on the retail side and a definite harm to the consumer on the banking side. I believe it would be the greatest redistribution of income from the banking industry to the retail industry ever mandated by a law with the persons whom it was supposed to benefit most likely to suffer the consequences as the banking industry is forced to eliminate debit rewards, increase fees and loan rates or lower deposit rates. In addition it could cause us to not hire. It could cause some credit unions and certain banks to fail if the 75% reduction in interchange fee income can not be collected from the customer in some fashion.

Market forces will eventually take care of the perceived inequities of the interchange fees. As other payment methods are developed, the interchange fee will fall gradually without any price fixing and not in such a radically rapid manner. Price fixing is bad in general, but price fixing a single banking product is just poor policy. It would be like the government price fixing what a restaurant could charge for a grill chicken sandwich such that it forces the price of hamburgers to go up and the hiring of young employees to decline.

To attempt to recoup the \$750,000 in potential lost income our bank is considering a number of things in addition to the items mentioned above. It includes getting back in to the credit card business because the Durbin rules do not apply to credit cards. It makes no sense for the price fixing to apply to one form of plastic and not the other. Ditto with prepaid cards. But with the attacks on the credit card business and huge up front costs, we don't know if this is a viable option. Our free

checking product may be eliminated or severely altered such that only high balance accounts can earn the free account. This harms our most economically depressed customers. The large regional banks in our area have already pulled free checking so these folks will be looking to the community banks like us to provide the zero cost option. We frankly don't know if we can afford to take these folks in with the huge decline in revenues.

I could go on for a couple of more pages, but I assume you will have read most of whatever I would comment on. We just want to be on record of asking you to please delay this proposal for at least two years and give the Fed more time to consider all the unintended consequences. Debit cards are a wonderful payment method for the merchant, the consumer and for the bank. There is no reason to change this without proper study.

Please work with members of Congress and the present Administration and suggest they pass a bill if need be to delay this provision as soon as possible so we know how to respond as a community bank. If the proposal stands, we will have to take immediate actions that will be harmful to our customers. On the other side, the Wal Marts of the world have zero obligation to pass on a single cent to their customers. The \$10 billion exemption for "community banks" simply will NOT work and even if in place would cause merchants to stop accepting our debit cards and we will lose accounts to the big banks.

Community banks did not cause the Wall Street problems, so we should not suffer the consequences of lost income and/or lost customers. This provision had no business being a part of Dodd-Frank Act. Interchange income had nothing to do with the "financial meltdown" and this price fix does nothing to prevent a future meltdown.

In conclusion, I am not related to Senator Dick Durbin, but if I were, he would definitely not have received a Christmas card from me. I could not disagree more with his "Durbin" Amendment.

Sincerely,

John Durbin, CPA - CFO