February 16, 2011

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

RE: Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Dear Ms. Johnson,

I am both shocked and amazed that a Federal agency whose mission includes consumer protection and insuring the safety and soundness of the banking industry, has chosen to interpret the statues of Section 1075 in a fashion that is detrimental to both of these groups. The draft rules proposed by the Board to implement Section 1075 will bring about an extreme drop in income for the banking industry resulting in increased fees to consumers, decreased services – particularly services that are currently free to consumers, and a significant reduction in investments that would help prevent fraud.

In implementing the interchange provisions of Section 1075 the Board has proposed two alternatives, but both alternatives involve price fixing rather than establishing "standards for assessing" whether interchange rates are "reasonable and proportional" as required by the law. The statue does not require a rate cap and in establishing one the Board is not only misinterpreting the statute, but inflicting harm on the industry – particularly community banks and credit unions.

In addition, the rates proposed by the Board seem arbitrary, and are, in fact, half of the costs incurred by our bank. Our current costs for "authorization, clearance, or settlement" are $0.24 per transaction. This cost does not include expenses required by Regulation E for consumer protection from fraud losses which are often absorbed by the bank. It also does not include costs associated with developing and implementing new technologies to prevent fraud and further protect merchants, consumers, and financial instructions from fraud. If the Board leaves the $0.12 cap in place, it will create a loss for our bank of $187,000 annually due solely to this regulation.

FIRST NATIONAL BANK OF BOSQUE COUNTY

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CLIFTON, TX	MERIDIAN, TX	VALLEY MILLS, TX	WACO, TX
76634	76665	76689	76712
254-675-6570	254-435-6100	254-932-5345	254-848-4777

While theoretically exempt from the interchange provision, the reality is that most EFT networks are not supporting the "two tier" approach necessary to make the exemption a reality. Even those networks that have expressed a willingness to support the two tier approach have yet to develop a method to make it work. Many small institutions are not members of the networks supporting the two tier approach and switching networks is time consuming, expensive, disruptive, and may not have a lasting impact if merchants choose to avoid these networks in favor of the networks that offer them a lower overall cost.

I respectfully request that the Board rewrite the interchange section of the proposed regulation so that it follows the requirements of Section 1075 rather than establishing artificial prices and setting up a system of price fixing.

If the Board continues with the proposed artificial price caps for debit transactions, then the network exclusivity provisions are moot for large institutions as every network will be offering the same price and merchants would have no need to prefer one network over another. The impact of the network exclusivity provisions on small institutions could be dramatic. These institutions could find that they are now required to join EFT networks that do not support the two tier approach to pricing, and as a result will see merchants choose to route transactions only over the lower cost networks, thereby negating the interchange pricing exclusion that the law requires.

Of the two network exclusivity provisions proposed by the Board, Alternative A is sufficient to meet the requirements of Section 1075, and Alternative B goes well beyond the statutory requirements. Alternative B would also impose unnecessary additional costs on financial institutions that could not be recouped under the Board's proposed interchange price caps. I request that the Board implement Alternative A.

Sincerely,

Brent Rickels
Senior Vice President

Debit Card Profitability - December 2010

Number of Transactions	51,340
Cards Issued	4,296

	Actual	Per Trans.	Regulated	Per Trans.
Income				
Debit Interchange	$13,498.89			
PIN Interchange	8,245.08			
Total Income	$21,743.97	$0.42	$6,160.80	$0.12
Expenses				
Total Expenses	$12,181.84	$0.24	$12,181.84	
Total Income/(Loss)	$9,562.13	$0.19	($6,021.04)	-$0.12
Annualized Income/(Loss)	$114,745.56		($72,252.48)	
Lost Income from Regulation				
Month			$15,583.17	
Annual			$186,998.04	
Income Replacement Strategies				
Per Transaction Fee				
- to break even		$0.12		
- to recover income		$0.30		
Per Card Fee (Monthly)				
- to break even		$1.40		
- to recover income		$3.63		