FIRST AMERICAN BANK

Michael T. Murphy
Executive Vice President and
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February 22, 2011

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

Re: Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

We just completed opening our newest location to serve our customers just outside of Norman yesterday so I am a bit late in responding to the proposal. I mention that not in way of excuse, but to further explain the need for your careful reconsideration of what the Federal Reserve Board has proposed. We have been able to expand and serve customers as we have had sources of revenue. However, our expenses continue to increase while our sources of revenue are under attack under many of the new rules over the past three years.

First American Bank ($300 million in total assets) has a robust deposit base – nearly 30% of all deposits are checking account customers who rely heavily on free products and services such as debit cards, electronic statements, internet banking, cash management and basic banking services. We offer free accounts for both businesses and consumers that comprise about 40% of our demand deposits. These free services are grave risk should the interchange proposal pass; actually, if any restriction on our interchange revenue stream be put at risk.

That income stream generated over $900,000 in revenue for us last year. That is 5% of our total revenue. Our debit card expense associated with the production of that revenue totaled $425,000, not including personnel costs or data processing costs associated with card production, fraud monitoring or customer service functions associated with card ordering. These costs include over $45,000 associated with fraud related losses absorbed by our bank on behalf of our customers just in 2010.

To say that there can be a two-tier system is not in line with our country's free market system. Merchants and customers can choose what network and what card to use based on pricing. If pricing is ***controlled*** as is proposed, that would lead to an uneven playing field. Our cards would be more expensive or not on a "preferred" network and suddenly merchants may choose to not accept them. ***How is this good for the consumer? It is not.*** **Their choices are limited.**

The theory, according to Senator Durbin, is that the merchants will pass on savings from the interchange costs on to the consumers. Really? A merchant pays 1 to 2 cents per $1 transaction

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now. If they pay a fraction of a penny, they are not going to refund the difference to the consumer. ***How is this good for the consumer? It is not.*** **Their costs at the merchant remain unchanged and how they pay is more restricted due to the merchants being able to select what networks to accept.**

Another major source of revenue for us is being threatened. How do we react as most businesses would? We look to raise fees or costs for our customers on other products and services to make up for that lost revenue. We are a for-profit entity with shareholders. We employ 150 employees and support nearly 20,000 account holders. Those services we offer for free now – the free checking accounts, the free internet banking, the free debit card – all may see new fees associated with them or our offerings may be reduced. ***How is this good for the consumer? It is not.*** **There are no savings from the merchants, but increased costs from the banks.**

The ***2010 Federal Reserve Payment Study***, released just a few days before this terrible proposal, clearly shows the desire and the need of debit cards. The annual growth rate in number of transactions from 2006-2009 was 14.8%, with almost 38 billion transactions. That is about 35% of all payment transactions, far exceeding all other electronic payment types. Why? They are easy to use by the consumer, are risk free (losses are absorbed by the issuing bank), and merchants have little or no risk of loss. Compare the headache of issuing checks or carrying cash and the risk of loss for the consumer and/or the merchant.

We need regulatory relief in this time on economic uncertainty. We have had huge increases in FDIC Insurance premiums; had our overdraft income curtailed; experienced a greatly compressed net interest margin; and seen increasing compliance costs. If we are to loan more money to our local businesses; if we are support our communities; if we are to provide more services to our customers – then this proposal must not pass. Even Congressional leaders and Chairman Bernanke and many economists around the country question the validity of the assumptions brought on by the Durbin Amendment of the Dodd-Frank bill.

Please reconsider your proposal. Please avoid price controls and unnecessary regulatory burdens which are not carefully considered by all parties. We hope to continue to build new banking centers, add new services and help our communities. Help us do that.

Sincerely,

Mike Murphy

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