From: Barry Gober

Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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February 21, 2011 Ms. Jennifer J. Johnson Secretary Board of Governors of the Federal Reserve System 20th Street & Constitution Avenue, NW. Washington, DC 20551 RE: OUR OPPOSITION to the Durbin Amendment to Dodd-Frank Bill, Docket No. R-1404 Dear Ms. Johnson: I am writing this letter to inform you of First State Bank's opposition to the Durbin Amendment to the Dodd-Frank Bill. We are a community bank, with a total asset size of $124
million. We employ approximately 28 people and have served our community since our founding in 1983. Although the Durbin amendment exempts banks under $10 billion in assets, we believe that this legislation will still have negative impact on our bank. Most banks, other than large regional or national banks, find that the most efficient way to acquire the expertise and access to card networks is through a third party provider. First State Bank uses such a provider to drive our ATM network and process/settle for card transactions. We pay for our customers using other ATMs and we receive fees when non-First State Bank customers use our ATMs. We pay for the cost to process transactions our customers conduct at merchants and we receive interchange income to help reimburse our bank for all the costs associated with this process. Currently the national average for interchange fees is 44 cents per transaction. After this legislation takes affect that rate will drop to between 7-11 cents per transaction for banks with assets above $10 billion dollars. If my interchange rate is 44 cents per transaction and the bank down the street has a interchange rate of 10 cents, what is going to stop a merchant from accepting the card with the lower interchange fee and refusing to take cards with the higher interchange rate? There would clearly be an incentive for a merchant to want to cut the amount that they pay in interchange fees as it would enhance their bottom line. If this scenario were to take place we would be forced into lower our interchange rates to stay competitive. First State Bank is a for profit organization. We offer products and services that not only serve the needs of our customers but also make financial sense for the

bank. In 2010 our interchange income was $126,371.59 while the amount we paid to third parties to process our transaction was $86,517.87. We had fraud losses on our debit card program in the amount of $4,954.69. Taking these numbers into account, First State Bank's debit card program was profitable in 2010. However, if the amount that we received for interchange were to decrease 80% as proposed, we would be looking at a loss of $66,198.24 per year to continue our debit card program. At this point we would have to reevaluate the feasibility of continuing the program which would deprive our customers of a valuable service. Another option to consider would be to implement a revised fee structure in order to cover the costs associated with offering debit cards. It is unclear whom this regulation is intended to benefit. If interchange rates are lowered, this will negatively impact the banking industry, customers and the economy. Sources of income cannot be taken away from any business segment without weakening that segment or forcing other sources of income to be developed. In summary, I urge you to stop the far-reaching negative implications for the banking industry, consumers and the economy at large. Sincerely, Barry T. Gober Vice President