FARMERS TRUST & SAVINGS BANK

February 18, 2011

FARMERS TRUST
& SAVINGS BANK

710 ELM STREET
P.O. BOX 90
WILLIAMSBURG, IOWA
52361

(319) 668-2525
FAX (319) 668-

www.ftsbia.com

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

Re: Docket No. R-1404 / RIN No. 7100 AD63
Debit Card Interchange Fees and Routing Rule

To the Board of Governors:

Farmers Trust & Savings Bank is a $120 million asset bank located in Williamsburg, Iowa. As President & CEO, I am writing to express my opposition to the proposed rule to implement the Durbin Amendment as referenced above.

My bank is located in East Central Iowa serving the communities in and around Iowa County. We have 17 employees. We serve a variety of customers with the standard array of bank products including consumer, real estate, farm and business loans and checking, savings, and certificate of deposit products. Also over the years, this bank has been an early adapter offering our customer base enhancements to these products such as ATM's, debit cards, image statements, internet banking, mobile banking, etc.

I want to explain my basis for opposing this proposed rule as it will have draconian effects on this bank and the industry. Please refer to the attached Durbin Amendment Projection spreadsheet prepared by this bank's chief financial officer. He has compared the two most recent months (which just happen to be the highest and lowest months for interchange revenue in the past year) and then added a third column where he has averaged them out.

The projection clearly shows the bank will lose money (see F. and G.) providing debit card services to our customers under the changes proposed by the Durbin Amendment. This bank is <u>not</u> a non-profit organization. My shareholders expect a reasonable return.

The projection does not take into account costs for ongoing operating tasks (see D.4.) such as:

- assisting customers with inquiries and transaction disputes,
- charge-back processes,
- ongoing fraud monitoring and follow-up,
- reissuing cards resulting from merchant data breaches (e.g. Heartland Payment Systems), and
- absorbing fraud losses because the merchant has no responsibility in rectifying.

These costs were not specifically enumerated in the projection because they are variable, unpredictable and subject to significant fluctuation.

How might we make this deficiency up? While it hasn't been determined, I can only guess we will pass the costs on to our customers through higher fees and loan rates, reduced deposit rates and/or staffing reductions. In fact, one of our employees recently resigned. This issue was a factor in our decision not to rehire at this point in time.

Concerning routing requirements, I would encourage the Board to adopt alternative A in implementing the routing requirement. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. Alternative B would require multiple signature networks be deployed on one card. This is impractical as currently the signature card payment systems do not support such a choice. In addition, Alternative B would require this bank to reissue debit cards, an unnecessary expense and an inconvenience to our customers.

In summation:

1. I am opposed to capping interchange fees at seven or 12 cents for the monetary reasons stated above. This will have a significant detrimental impact on our bank, our customers and our operations. I strongly believe the interchange level needs to be much higher to appropriately address all costs and risks to the bank.

2. I am also opposed to the adoption of Alternative B for routing debit transactions. Alternative A is a more practical approach.

Thank you for your consideration.

Sincerely,

John R. Jones

John R. Jones
President & CEO

JRJ
Enclosure

Farmers Trust & Savings Bank
Debit Card Program
Durbin Amendment Projection

	Month Ended 12/31/2010	Month Ended 1/31/2011	Average
A. Interchange Revenue	$ 14,008	$ 10,974	$ 12,491
B. Less:			
Durbin Amendment Revenue Reduction (80%) *(Industry estimates put this at 75% - 90%)*	*(11,206)*	*(8,779)*	*(9,993)*
C. Projected Revenue Under Proposal	$ 2,802	$ 2,195	$ 2,498
D. Less Expenses:			
1. Debit Card Program Expense	(3,698)	(4,899)	(4,299)
2. Card Production Costs	(743)	(702)	(723)
3. Fraud Losses (2010 per month average)	(78)	(78)	(78)
4. Other Costs:			
Fraud loss and prevention	?	?	?
Inquiries and disputes	?	?	?
Data breaches	?	?	?
Capital investment	?	?	?
E. Profit Margin	?	?	?
F. Monthly Debit Card Program Profit / (Loss)	$ (1,717)	$ (3,484)	$ (2,601)
G. Annualized Debit Card Program Profit / (Loss)	$ (20,609)	$ (41,810)	$ (31,210)

Prepared By: D. Jeffrey Young, Vice President and CFO