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The Federal Reserve
20th St. & Constitution Ave, NW
Washington, DC 20551

Dear Federal Reserve Board Members:

As a **Board Member** of the First State Bank in Barboursville, WV, I would like to address an urgent issue that requires immediate Congressional action. During consideration of the Dodd-Frank Act, an amendment by Senator Richard Durbin (D-IL) was made part of the final bill, without any consideration for the consequences this amendment would have on consumers, the economy or community-based institutions like the First State Bank.

As the Board reviews comments on proposed Regulation II, it should reconsider the range of discretion it has exercised in this rulemaking. The Board's proposal and the Government's understanding of the statute both recognize the substantial regulatory discretion left to the Board by the Section 1075 of the Dodd-Frank Act; it should exercise this discretion to produce reasonable outcomes in a number of important areas.

First, the Board should not adopt the proposed interchange caps. On the contrary, the Board's establishment of a government-determined price cannot properly rest on assessment of the costs of a small number of the largest institutions. This merely centralizes the market in the large institutions and disadvantages community banks. In my view, no system makes sense if it caps what an institution can charge at an amount that is less than the costs that said institution would incur and does not provide for a reasonable profit. At the same time, I believe that a safe harbor at some level is appropriate for administrative convenience. It makes little sense, though, to set the safe harbor at a level far below the amount necessary for cost recovery by most institutions.

Secondly, the Board should examine the impact that the proposed rule would have on all the major affected stakeholder groups: consumers, small businesses, and community banks. More broadly, the Board should examine the likely effect of the proposed rule on competition, market structure, and innovation. A rule trending strongly toward market concentration and the weakening of community banks should not be adopted without an explicit acknowledgment of the likely outcomes.

Thirdly, the Board should realize that anything that drives traffic away from more efficient electronic payments is counterproductive. Even if the Board determines that the statute requires an imprudent rule that has an adverse effect on consumers, competition, or payments choices, it will be better to adopt the rule with a direct explanation of the likely adverse outcomes Congress has forced upon the industry.

Fourthly, the Board should either require no more than two unaffiliated networks for debit cards or should provide an exemption for small banks. A four-network rule would have an especially debilitating effect on community banks. Moreover, in determining which networks count as unaffiliated, the Board should not limit the rule to networks that operate throughout the United States; rather, the Board should accept major PIN networks that are unaffiliated with MasterCard and Visa even if they do not operate throughout all parts of the United States.

Fifthly, the Board should not implement the pricing aspects of this rule before making public the fraud-prevention adjustments. Protection of fraud-related innovation is central to the future of the payments sector in our economy.

In conclusion, as a First State Bank board member, I ask you to consider carefully these suggestions and repeal this harmful rule before it's too late.

Sincerely,

Board Member of the First State Bank