

From: Farmers National Bank, Greg Caudill
Subject: Reg I I - Debit card Interchange

Comments:

February 1, 2011

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

Dear Jennifer Johnson:

Thank you for allowing us to comment on the Fed's proposed "Debit Card Interchange Fees and Routing" rule.

As President of Farmers National Bank in Danville, KY, and on behalf of our 156 employees, I am writing to express my deepest concern and opposition to the proposed rule. We have been serving and giving back to our communities for 131 years. This rule, if implemented, will make it increasingly difficult to continue to do so at such a high level.

We are opposed to the above rule because of its significant impact on small institutions like ours. The prevailing wisdom is that market forces will subject smaller institutions to the same pricing limitations as our larger peers. If this happens, it will be a crippling blow to many community banks across the country. It cannot be overstated how much these institutions mean to and do for their communities.

If these restrictions are forced upon us, our debit card interchange fees will decrease by approximately 70%, resulting in a total fee income reduction of about 15%. In order to survive and to try to mitigate our losses, we will have no alternative but to increase fees in other areas. This, of course, will make all banking services more expensive, having the biggest impact on lower income individuals. It should be noted that the intended consumer benefit from reduced interchange fees will actually be passed on to retailers. This will ultimately only result in harm to the consumer due to the unintended consequence of increased bank fees.

In calculating the permissible interchange fee, the proposal does not recognize important differences between debit cards and checks. This includes the fact that in transactions where the card is present, merchants are guaranteed payment.

The Board should 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.

For the reasons outlined above, we ask that you reconsider capping interchange fees. We trust that you will make the right decision. Thank you for your time.

Sincerely,

Greg Caudill
President & CEO
Farmers National Bank