

From: Sumner National Bank of Sheldon, John Sumner
Subject: Reg I I - Debit card Interchange

Comments:

John Sumner
February 2, 2011

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

Dear Jennifer Johnson:

I'd like to take this opportunity to express my continued concern that this country's government does not want small banks to survive and prosper in the future. Sumner National Bank of Sheldon has been serving its community for nearly 110 years, but that may come to an end if the number of new regulations and restrictions continue to be piled on. The limit on interchange fees proposed through the Durbin proposal is just the latest potential nail in the coffin, but unfortunately it's just one of many.

The Durbin ammendment is suppose to protect small banks, but it in fact will be ineffective according to the analysis performed by the ABA and many other banking organizations. As has always been the case, our free market system will push transactions to the lowest cost producer and we will be forced to accept the lower price in order to avoid losing customer and being shut out. Merchants will move to steer customers to cards of larger financial institutions that have a price advantage. We will be defacto forced to accept the lower regulatory cap that is suppose to be set for the mega banks, making our own debit card program very unprofitable.

During the last year the mega banks made very strong profits, but did you know that small banks are still struggling and that our profits have been squeezed dramatically over the last 3 years. We have suffered the larger brunt of the effect of the financial crisis created by the larger bank's at largely no fault of our own. Adding insult to injury, the Durbin ammendment will add to what already is a net expense for the bank each year to have our debit card program. If my network provider's estimate (-80% change in interchange fees) is correct the net cost of our program could skyrocket and triple our net expense. How are we suppose to make up that lost revenue? Should we cut services or increase our other fees? Doing so would only make it more difficult to compete when we are already at an disavantage in overhead expenses.

It is my hope that the board will reconsider the maximum premitted fee structure, and or, allow other costs to be considered in the calculation of the maximum allowable fee. This bank and many others have spent a considerable amount of money to put into service those machines that serve our customers and we have considerable ongoing expenses associated with machince maintenance, fraud prevention, network fees, and the cost of inquiries and disputes. Any kind of fee structure that does not consider

those fees and costs is not a "fair and reasonable" fee.

Considerable discussion has taken place in which retailers have complained about the cost of the debit card system, but what consideration has been given to the fact that those retailers who accept debit card transactions are guaranteed to be paid in-full if the transaction is authorized? They certainly don't get that kind of a guaranty when they accept a check. The debit card network has dramitically reduces their fraud losses. Where has this been factored into the discussion?

In conclusion, we don't think that it is appropriate for our govenment to place price controls on debit card transactions, however, if there are to be price controls, they should take into consideration our real cost. In addition, we would prefer to see the board adopt alternative A in implementing the routing requirement. It will limit the cost to manage additional unneeded relationships with other networks. Alternative B requires multiple signature and PIN networks be established and it would require the possible re-issuance of cards in many cases creating an unnecessary expense and inconvenience to our customers.

Thank you for your time and consideration in this matter. A strong banking system that allows small and midsized banks to compete and prosper is in everyones interest. Please don't make doing so any harder than it already is.

Sincerely,

John T. Sumner
Sumner National Bank of Sheldon