From: First Community Bank, Sheldon Hendrix

Subject: Reg I I - Debit card Interchange

Comments:

First Community Bank ("Bank") is opposed to several provisions of the proposal of Regulation II (12 C.F.R. § 235) under the Electronic Funds Transfer Act (15 U.S.C. § 1693 et seq.) which will regulate debit card interchange fees and routing. We are opposed because of the following negative effects we have identified that will affect our institution personally. We also believe similar institutions will incur difficulties and hardships of the same nature, and that the broader negative the economic impact to both community banks and consumers could be substantial.

The proposal outlines that to obtain a safe harbor under the regulations, that a $0.07 cap be adopted on interchange revenue per transaction. Currently, our Bank makes approximately $0.20 per transaction. In the last quarter of 2010, our Bank netted $38,328 of interchange revenue. If the amount were to be reduced by $0.13 per transaction (based on the $0.07 cap), we would experience a quarterly net loss of $24,742 (down $13,586.37).

In addition to this loss, we will have to continue to incur various forms of overhead that are increasing the expense to provide access to electronic payment networks. Some examples include fraud prevention, fraud losses due to consumer liability restrictions (Regulation E), risk management, and core processing arrangement expenses (this list is not all inclusive).

Another unintended consequence that we anticipate from this rule as proposed is the continued targeting of our low-cost checking products. As our revenue streams continue to be targeted by regulations (e.g., this proposal, overdraft program restrictions, etc.) on basic checking account products, it is becoming increasingly difficult to operate free and/or low cost checking products without offsetting the costs to operate these products at some kind of a profit. We believe what this will do; based on our own experiences with the economic dispositions within the communities we serve, is essentially drive more low-to-moderate income individuals to the more predatory and loosely regulated financial service providers (e.g., nonbank financial institutions, payday lenders, independent service organizations, etc.). This outcome will run contrary to other regulatory requirements (Community Reinvestment Act), and recent FDIC initiatives to reach the "unbanked." As a consequence to this effect, we may have to do away with or further limit low-cost or free checking account products as a necessity to offset losses.

Lastly, this proposal will create an uneven playing field with those institutions directly impacted, as well as with nonbank financial service providers, which will compound the effect of the losses incurred by creating noncompetitive environment. History has shown that any market without competition has proven to have massive disadvantages to the public and broader economy as a whole.

Based on the concerns we've expressed, we feel that at a minimum, the proposal should be delayed to allow time for extensive studies to be performed to determine the overall economic impact this will have on community banks and the communities they serve.

In closing, I would like to express that I appreciate the opportunity to comment on this proposal, and that I hope that our comments are taken into consideration when developing a final regulation.

Sincerely,

Sheldon Hendrix
First Community Bank