Austin Bank

February 8, 2011

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

RE: **OUR OPPOSITION** to the Durbin Amendment to Dodd-Frank Bill; Docket No. R-1404

Dear Ms. Johnson:

Much has already been written concerning the negative impact of this legislation on banks, communities and customers. Austin Bank will be impacted in all of the ways already presented....negative pressure on earnings forcing us to either raise other fees, develop new fees or cut services. None of these options will be a positive for our customers. Anyone that believes merchants will use their lower cost for processing transactions to reduce cost to consumers is living in a fantasy world. Our politicians have looked at billion dollar income amounts that banks receive from interchange fees and decided banks are making too much from this service. It appears very little attention has been paid to the cost of providing these services in the real world.

Most banks, other than large regional or national banks, find that the most efficient way to acquire the expertise and access to card networks is through a third party processor. Austin Bank uses such a processor to drive our ATM network and process/settle for card transactions. We pay for our customers using other ATMs and we receive fees when non-Austin Bank customers use our ATMs. We pay for the cost to process transactions our customers conduct at merchants and we receive interchange income to help reimburse our bank for all the costs associated with this process.

Perhaps it will be beneficial to break this down to the impact on a single institution. Austin Bank Texas N A has assets of slightly over 1 billion and has served communities in East Texas for over 100 years. We are a for-profit institution and if regulations such as the Durbin Amendment place unrealistic caps on a reasonable source of income we will be forced to raise fees in other areas or cut back on services. To illustrate, provided below are a few key statistics for 2010 to illustrate how limiting interchange fees will impact our bank:

- Gross interchange fees as a % of Total Revenue = 6.2%
- Gross interchange fees as a % of Net Revenue = 21.6%
- Gross interchange fees as a % of Total non-interest income = 19.0%
- Per transaction cost paid to processor by the bank for a PIN based transaction = $0.0915
- Per transaction cost paid to processor by the bank for a Signature based transaction = $0.1505
- Fraud losses from debit card operations for our bank in 2009 were $155,678.96. Losses in 2010 were $189,316.48. There is no reason to believe these losses will not continue to grow,

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especially since the majority of the burden for card fraud is placed on the issuing bank with merchants having very little responsibility for trying to reduce fraud.

Our attachment shows a few statistics which I would like to share with you. We expect a 70% reduction in our interchange fees which will reduce our income by 14.74%! That, coupled with the reduction of NSF fee income and increased interest expense due to Reg Q, we anticipate a total reduction of net income in the amount of $8.7 million! That's a 68.12% total reduction in net income! I repeat: A potential **68.12% reduction in our net income!** Given this worst case scenario, this equates to a potential loss that **cannot** be made up in the local economy. Community Banks like ours only increase Equity Capital through retained net income. If net income is reduced, so is our capital growth. That leads to less lending by banks. While we are a healthy bank, there will be a far greater impact on banks that aren't as healthy as we are. Banks will have to ration capital which will lead to an unintended capital crunch. Is this what the Federal Reserve, Congress, and Regulators really wanted?

Furthermore, let me illustrate an example of an issue which occurred just last week. In speaking with our debit card processor, we were informed of that one of our customers rented a car from Hertz and signed the authorization form showing a smaller amount since the final amount is not known at the time of the initial transaction. Hertz used an authorization code to charge the smaller amount, which the customer was paying weekly. When the customer stopped making payments to Hertz, they re-ran the same authorization code and charged the debit card with the full amount.

Merchants like Hertz are protected under the Travel and Expense Rule and we, as the card issuer, must bear all the risk. We could not dispute the charge due the T&E Rule. Our bank will lose over $4,000 on this one transaction. If our interchange revenue is expected to be cut by 70%, we cannot afford such losses. This was just ONE customer! Yet another unintended consequence of why this Amendment must be repealed. Please stop or delay implementation of this Amendment.

There appears to be little evidence of how this Amendment will positively impact the banking industry, customers or the economy. Sources of income cannot be taken away from any business segment without weakening that segment or forcing other sources of income to be developed. In summary, I urge you to stop the far-reaching negative implications for the banking industry, consumers and the economy at large.

Sincerely,

Jeff Austin, III
Vice Chairman of the Board

cc: American Bankers Association
Texas Bankers Association
Congressman Jeb Hensarling
Congressman Randy Neugebauer
Richard Fisher, President, Dallas Federal Reserve Branch

Austin Bank

	YTD 2010	% Non-Int Inc	% Revenue	% PBT
Interest Income	$55,791,000			
Interest Expense	$7,774,000			
NET INTEREST INCOME	$48,017,000			
Provision for Loan Losses	$3,775,000			
NET INT INCOME AFTER PLLL	$44,242,000			
Interchange Income	$4,158,000	17.99%	5.85%	20.60%
NSF Fee Income	$11,460,000	49.59%	16.11%	56.77%
Other Non-Interest Income	$7,490,000			
TOTAL NON-INTEREST INCOME	$23,108,000			
TOTAL NON-INTEREST EXPENSE	$47,165,000			
PROFIT BEFORE FIT	$20,185,000			
Federal Income Tax	$7,345,000			
NET INCOME	**$12,840,000**			

Reduction in Interchange of:	***30%***	***50%***	***70%***
Reduction in net income of:	$811,000	$1,351,000	**$1,892,000**
Percentage reduction in net income:	6.32%	10.52%	**14.74%**
Current tier 1 capital ratio:	9.11%	9.11%	**9.11%**
Reduction in funds available to lend:	$8,902,000	$14,830,000	**$20,768,000**
Reduction in NSF Fee Income of:	***30%***	***50%***	***70%***
Reduction in net income of:	$2,235,000	$3,725,000	$5,214,000
Percentage reduction in net income:	17.41%	29.01%	40.61%
Current tier 1 capital ratio:	9.11%	9.11%	9.11%
Reduction in funds available to lend:	$24,533,000	$40,889,000	$57,234,000
Increase Interest Expense from Reg Q Repeal:			
Average collected balance:	$126,127,000	$126,127,000	$126,127,000
Average rate paid:	0.25%	1.00%	2.00%
Reduction in net income of:	$205,000	$820,000	$1,640,000
Percentage reduction in net income:	1.60%	6.39%	12.77%
Current tier 1 capital ratio:	9.11%	9.11%	9.11%
Reduction in funds available to lend:	$2,250,000	$9,001,000	$18,002,000
Combined Impact of All Three:			
Reduction in net income of:	$3,251,000	$5,896,000	**$8,746,000**
Percentage reduction in net income:	25.32%	45.92%	**68.12%**
Current tier 1 capital ratio:	9.11%	9.11%	9.11%
Reduction in funds available to lend:	$35,686,000	$64,720,000	**$96,004,000**
FUNDS NOT AVAILABLE TO LEND ANNUALLY:	***$35,686,000***	***$64,720,000***	***$96,004,000***

Austin Bank Texas, NA is headquartered in Jacksonville, Texas
As of January 31, 2011, Total assets were: $1.258 Billion
www.austinbank.com
Contact: Jeff Austin III, Vice-Chairman, (903) 586-1526

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