



February 9, 2011

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

Re: Regulation II; Docket No. R-1404

Dear Ms. Johnson:

I am writing on behalf of my 35 colleagues at Lamar Bank & Trust Company (LBT) to express our opposition to the proposed Debit Card Interchange Fee and Routing rule as necessitated by the Durbin Amendment. LBT is a \$120MM one location bank serving the rural county of Barton in Southwest Missouri. LBT was an early adopter of debit card technology and continues to push the product as we believe it is consumer friendly.

LBT is concerned with the proposed rule based on the following reasons:

As proposed, the pricing does not consider the cost of fraud. The current rules and regulations in our opinion are very consumer friendly. Rarely is the customer out any money due to fraud. Rather, it has been the banks that have absorbed the losses when customer card numbers are obtained and used by fraudsters and scammers. Furthermore, when large retailers' databases are compromised and card numbers obtained the banks have absorbed the losses. Please take into consideration not only the loss due to fraud, but also the time and resources of the bank's staff to replace all the compromised cards. (On one such large retailer database compromise, our bank had to replace nearly 1,700 cards) We find it ironic that the large retailers who were behind the Durbin Amendment are the source of the majority of the losses!

LBT spends a considerable amount of time educating our customers, particularly the elderly, on the risks associated with a debit card and how to mitigate those risks. It does not appear the proposed pricing takes into consideration the cost of fraud prevention and training. Under the proposed pricing structure we would not be able to offer the same level of prevention and training.

Lamar Bank & Trust Company

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The FRB also needs to expand its view of settlement. The primary objective of the Electronic Funds Transfer Act is to protect individual consumers engaging in electronic funds transfers (EFTs). Network operating rules, which also provide consumer protections, require an issuer to maintain responsibility and liability for settlement until a cardholder's dispute rights have fully expired. Any costs incurred by an issuer throughout this settlement process should be considered allowable costs, including the cost of inquiries and disputes; fraud losses and fraud-prevention costs; and fixed costs, including capital investments, used to support settlement.

We believe 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. Alternative B would require us to manage multiple PIN network relationships, creating additional costs with little benefit. Alternative B would also require multiple signature networks be deployed on one card. This is impractical as currently the signature card payment systems do not support such a choice. In addition, Alternative B would require re-issuance of cards in many cases which is expensive and disruptive to customers.

It is our opinion that government price fixing for debit card transactions is inappropriate and will only create inefficiencies in the payment system, stifling innovation. In addition to not being able to cover the above costs, the proposed pricing does not provide funds for further improvement of the network or any return on investment. The banks and issuers built the network; shouldn't they be entitled to a profit? The big box retailers receive the benefit of the network and now they want a portion of the profit! It is estimated that under the proposed pricing, LBT would see a 70% reduction in interchange income which will significantly impact our bank and our customers.

We appreciate your time and opportunity to comment.

Best Regards,



Patrick B. O'Neal
Executive Vice President & CFO

Cc: Senator Claire McCaskill
Senator Roy Blunt
Representative Vicky Hartzler