From: Oak Creek Valley Bank, Mark Blazek

Subject: Reg I I - Debit card Interchange

Comments:

February 20, 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 the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

As President of Oak Creek Valley Bank, a banking institution in Valparaiso, NE with 60 Million in total assets, I am writing to express my STRONG opposition to the proposed rule. We have 11 employees with a single bank location in a town of 600 people. We are an Agricultural bank, but have a large commuter population to Lincoln, Nebraska. Our customers shop and purchase there and elsewhere with our debit cards.

Our bank is opposed to the proposed rule for the following reasons:

I. The safe harbor provides no protection to small issuers from market forces. I have been very active in meetings and seminars on this legislation and your rule and have found noone who believes the carve out will work in practice.

The price differential between cards will give merchants a strong incentive to steer customers to use cards of the larger institutions and to partner with large institutions to move their accounts to the larger institutions. We will be subject to the same regulatory cap.

I am also very concerned about your rule failing to take into consideration regional processors / providers such as NETS in Nebraska. Any rule should permit us to continue to use our provider who processes a very high percentage of all of our card activity.

II. Because the proposal does not permit our bank to cover the cost of providing debit card transactions, we will see new maintenance and other fees on checking accounts which industry wide will likely far exceed any benefit passed on to consumers by merchants.

I have been at our bank for over 15 years. We have never made a profit on debit cards. Ignoring the cost of overhead (cost of the ATM itself; facilities, insurance, etc); the cost of personnel (Employees who handles debit card issuance/maintenance) & the cost of fraud losses (thousands of dollars per year and rising each year); we finally broke even several months each year for the past 1-2 years, depending on the number of customer transactions. This follows 15-20 years of substantial losses, even before the above "fixed costs". The level at which your proposal sets these interchange rates (if applied to our bank) will cause us to take drastic steps to offset that lost revenue. It will insure that we can never break even on our card program, notwithstanding investment of tens of thousands of dollars and many years of building a customer base.

Low and moderate income customers will find it more difficult to maintain a bank account and will have to turn to more expensive, less convenient, non-traditional banking services.

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 and the issuer suffers the loss in the event there are no funds or a valid account. In contrast, checks may be returned unpayable and merchants suffer the loss.

V. Government price controls are inappropriate for debit card transactions.

Price controls will lead to inefficiencies in the payment system and will stifle innovation and improvements.

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 have and manage multiple PIN network relationships, creating costs with little benefit.

Alternative B would require multiple signature networks be deployed on one card. This is impractical as currently the signature card payment systems to not support such a choice.

In addition, Alternative B would require re-issuance of cards in many cases, an unnecessary expense and an inconvenience to customers.

For the reasons stated above we are opposed to capping interchange fees at 7 or 12 cents. This level totally ignores the actual cost of providing the service and It will have a significant impact on our bank, our customers and our operations. Additionally, it is a broad overreach of Congress' intent.

Sincerely,

Mark Blazek