From: Andrew Rottner

Subject: Reg I I - Debit card Interchange

Comments:

February 22, 2011

Jennifer J Johnson
Secretary, Board of Governors of the Federal Reserve System
20th St and Constitution Ave, NW
Washington, DC 20551

Dear Jennifer Johnson:

The Durbin Amendment to the Dodd Frank Bill is the epitome of misaligned, poorly understood, poorly planned and unfair legislation being imposed on community bankers across this great nation. Congress has essentially injected price fixing into our free economy system through the guise of the Durbin Amendment as currently proposed by the FED. I implore you to delay issuing a final rule until this highly complicated and far reaching issue can be further researched and debated by all relevant parties: banks (and community banks must be included in this discussion), processors, merchants and consumers.

North Texas Bank is a community bank. Our bank has provided the basic function of what most community banks do in their communities: take in local deposits and loan it back out to local creditworthy customers who are making their community a better place to live and work. We have successfully grown to just under $120 million in assets by doing the basics very well. We provide a full suite of financial products and services to our customers. If customers didn't like our products, our pricing or our outstanding service, they would not bank here. There are five other institutions available to them in a town of 6,000. Additionally, in 2010 we provided over $30,000 to our local schools, non profits, community organizations and others via our direct donations and contributions.

The regulation, while calling for different standards for banks under $10 billion, will affect every bank. It will be virtually impossible at this time to implement a fair dual system as proposed by the regulation. To demonstrate the impact on North Texas Bank with the proposed 12 cent ($0.12) cap, please see the information related to all of 2010 below:

Total debit card transactions: 187,132
Total debit card revenue $106,044
Gross interchange as % Net Revenue: 18.7%
Gross interchange as % of Total non-interest income: 22.5%
Per transaction gross interchange revenue: $0.57
Per transaction processor expense: $0.26
Per transaction card expense: $0.03
Fraud as % of interchange revenue: 6.1% (for January 2011 it was 34%)

The bottom line is that North Texas Bank will experience a 79% reduction in interchange income if the legislation is implemented as proposed.

Currently, we realized a net profit for the debit card program of $44,665 in 2010. If the FED's proposal is implemented we estimate a loss of $56,444 in 2011. While somewhat unrealistic to discontinue offering debit cards, why would community banks continue to offer a product that they know without question they will result in substantial losses to the bank. On the lending side, you would be written up for doing something so foolish.

This will force North Texas Bank, and thousands of community banks just like us, to implement a variety of measures to mitigate this lost revenue. The changes could, and will, include a per month fee to have a debit card; the elimination of "free" checking; increased monthly account fees; increased ATM Fees in addition to much greater scrutiny as to what customers would be allowed to have a debit card.

Fraud is another area of concern with more accountability and responsibility needed on the merchant. We recently had over $1000 in fraud loss with one customer whose card information was compromised. The criminal went to a Target store and presented SIX different cards to the clerk before finding one that worked. The clerk never questioned the criminal or asked for any identification. This is all on video as relayed to me by an incredulous loss prevention officer at that particular Target. How should I be held 100% accountable for an action like this!?

In the event the Federal Reserve proceeds with the issuance of a final rule, rather than delaying for further study, then they need to establish the "standards for assessing" that is required by the statue rather than impose price caps. Allowable costs should also be expanded to include all costs incurred by banks to offer a debit card program to customers.

This is a highly complicated issue that has very negative and long lasting implications for community bankers. How our elected officials can claim to fully understand this matter and then allow the FED to rush it into implementation is beyond me. If this legislation is implemented in current form, along with the other reform measures such as Overdraft Protection and increased consumer compliance via the CFPA, community bankers will see capital levels remain stagnant or decline. Without additional capital resources, they will not be in a position to lend money in their communities or facilitate growth within the bank.

I urge the Federal Reserve to DELAY issuing a final rule until further studies can be completed with all relevant parties. Not doing so will heap additional financial burden on the backs of community bankers who have successfully led our communities and small businesses through the past two years of economic disaster. Please do not continue to prevent us from doing what we do best, serving the people and businesses in our local communities.

Sincerely,

J. Andrew Rottner