



February 17, 2011

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

Re: Opposition to Federal Reserve's Proposal for Implementing Durbin Amendment to Dodd-Frank Bill

Dear Ms. Johnson:

Tioga State Bank is a small community bank in Upstate New York with roughly \$380 million in total assets. Our bank is substantially below the \$10 billion threshold proposed in the Durbin Amendment. While our bank is exempt from the interchange price controls as proposed, we remain opposed to the implementation of this amendment. This amendment and proposed implementation will negatively affect our earnings and force us to either raise other fees, develop new fees or reduce/cut services.

Consumers have never directly paid interchange fees and will not see any savings when the government sets the pricing for interchange by introducing a hard cap on charges. Interchange has always been a fee paid by the merchant for the convenience, speed and security of using the debit card system when selling their product. We do not process our own debit card transactions; we pay a service provider to process for us. We in turn receive interchange income from merchants when our customers purchase goods from them. This income helps to offset our cost associated with the transaction and also helps to pay for fraud losses, which the merchant is virtually isolated from, and are charged, directly to the bank. These fraud losses continue to increase each year.

While we have been told we are exempt from the interchange price controls set by the Federal Reserve, we are not convinced we will not be affected. The marketplace will drive business to the lowest cost option and retailers will more than likely encourage customers to only use debit cards offered by the largest banks that are subject to the price caps. While Visa has announced a two-tiered pricing structure, we are far from certain that structure can even work. We also feel that market pressures from lowering the fee by roughly 80% for the large banks will pressure smaller banks and processors to follow suit and lower their prices, thus reducing our revenue as much as 80%.

If this source of revenue is reduced, we will be forced to lower or eliminate the interest rate on our Reward Checking product which pays customers for using their debit cards. We will also more than likely be forced to eliminate our free checking product. The amendment will ultimately cost consumers more in fees and reduction of interest paid on their accounts.

Merchants will not and do not pass along the cost savings to their customers. In Australia, interchange regulations were enacted and as a result consumers ended up paying more, losing rewards, and didn't see any difference in prices at the register. Australian retailers, on the other hand, increased their profits.

While this may benefit retailers, it will have a negative impact on small business throughout the country. As a small bank, our only real source of capital comes from retained earnings. Over 16% of our net income comes from debit card interchange. If this is greatly reduced, it will limit our ability to grow the bank and limit our ability to lend to our small business customers. Throughout this recent financial crisis, we have continued to lend and support our small business customers. With implementation of this amendment, we will be forced to curtail our lending due to constraints on our capital. This will increase the cost for small businesses to borrow as all banks throughout the system are faced with this crunch.

Unfortunately, there were no hearings on the Durbin Amendment or any analysis of its impact on businesses, consumers or small institutions. It was rushed through the Senate and became law despite the House having had no opportunity to vote on it, an amendment that had no relation to the other provisions of the Dodd-Frank Act.

There does not appear to be any evidence of how the Durbin Amendment will positively impact the banking industry, consumers or the economy. Please stop or delay the implementation of this Amendment. The unintended consequences of implementing this Amendment are far reaching, even to a bank thought to be exempt from it.

Sincerely,



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cc: Independent Community Banker's Association  
Independent Bankers Association of New York State  
Congressman Richard Hanna  
Senator Charles E. Schumer  
Senator Kirsten E. Gillibrand