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Subject: Reg II - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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Durbin Amendment Response Board of Governors, Centennial Bank is a \$3.7B bank based in Conway Arkansas that started in 1998 with \$15mm in capitol. Since then we have successfully completed numerous mergers and acquisitions including 6 FDIC assisted transactions. Given our current size of \$3.7B and the fact we already have different processors for pin and signature transactions, there is little risk Durbin will negatively impact our financial institution. However, there are several issues that don't appear to bear much weight or escaped the consideration of those that drafted the amendment. Losers: Large issuers will not accept the enormous revenue losses coming their way and WILL pass those losses on to consumers in any number of ways including service charges for debit cards and fees for rewards programs. Therefore, not only the banks lose but consumers lose as well. Small business has the opportunity to increase prices to cover costs, consumers may well be operating on a fixed income or supporting a family. Once again, the government comes along and imposes more fees to those least likely to afford them. Do you really believe retailers or small businesses will pass the cost savings along? Small debit card issuers may also be a loser if least cost routing rules are implemented, once again a potential burden to consumers. In addition, when VISA and MasterCard see risk and reduction in profitability, the issuer will be the ones to feel the pain of increased quarterly assessments and transaction processing charges. Merchant Services companies will be strongly incented to route transactions away from community banks to 'least cost' providers, or big banks, or even ACH. Once there are at least 2 classes of financial transactions out there, further erosion of revenue is inevitable. Once again, banks and consumers will ultimately take the hit. Will small business really be a winner? The typical small business owner does not have access to extensive IT resources that would assist them in negotiating and maintaining an agreement with a merchant service provider where the small business comes out on top year after year. The payments industry is a complicated business that requires technology and expertise in order to stay current with trends and prices.

Regulators and congress have a habit of painting the banking industry with a broad brush. Community banks and large banks are different! However, increased regulation has a habit of effecting community banks as well as large banks. Regulation creep is a significant worry. Winners: Large retailers will achieve lower costs. Their stock holders and management will be happy but once again, a business that can and will adjust prices to cover costs, will likely maintain their current cost structure at the expense of the consumer and banks. There are several large retailers that continue to grow their competition with banks without being subject to the same regulatory environment, obviously an uneven playing field! Rewards program vendors may well increase profits as well, at the expense of the banks who have traditionally made profits by offering rewards programs and receiving higher interchange revenues for doing so. Costs: I can't begin to imagine the costs to the banking industry, card associations, and card processors for making procedural, IT and other transaction processing changes required to implement Durbin. Associations will have to segregate BIN's in such a way as to apply different interchange schedules. There are tens of millions of cards in circulation that will be effected and each processor may have unique changes to make. Do any of the changes effect the magnetic stripe on each card? If so, a card reissue like has never been seen before may be required. If cards have to be reissued it will cost 100's of millions of dollars to do so, and once again, banks and consumers will bear the brunt of the expense to facilitate another unfunded federal regulation designed to identify who wins and who loses. Some radical trade associations are calling for multiple pin and signature options on each card. Can you imagine a world where your single card is both a visa and MasterCard, or both Star and NYCE are available for PIN debit transactions. What a nightmare for the financial institutions! Why do consumers care or benefit from such a scenario? Finally, what are you going to do about NFC, its coming? When your cell phone becomes your wallet and telephone carriers like Verizon and ATT become involved in the revenue stream, will it still be attractive for them to bring leading edge technology to the marketplace? In closing, thank you for the opportunity to comment, but the Durbin amendment is poorly conceived and does nothing to present a level playing field to all of the stakeholders. Both banks and consumers will bear the burden and a small segment of retailers reap the rewards. Durbin should be strck in its entirety!