

Fidelity Bank

February 22, 2011

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



RE: Docket No. R-1404 and RIN No. 7100 AD63

Dear Jennifer Johnson:

As Chief Operating Officer of Fidelity Bank, I am writing to express my opposition to the proposed rule above. Fidelity Bank is a community banking institution with its headquarters in Wichita, Kansas. We have assets totaling \$1.6 billion and serve the Wichita, Kansas and Oklahoma City, Oklahoma markets with 25 branch locations.

During consideration of the Dodd-Frank Act, an amendment by Senator Richard Durbin (D-IL) was made part of the final bill, without any consideration for the consequences this amendment would have on consumers, the economy or community-based institutions such as Fidelity Bank. This amendment, commonly referred to as the "Durbin Amendment," and the proposed Federal Reserve implementation rule for the amendment, sets price controls on the fees merchants pay for the processing of debit card transactions—otherwise known as "interchange."

Although some provisions of the Durbin Amendment are directed at banks in excess of \$10 billion, there will nevertheless be, impact on community banks as larger institutions respond to those provisions in ways that change the competitive environment. For instance, once banks over \$10 billion begin charging lower interchange rates, merchants will have incentive to drive their traffic to cards issued by larger banks in order to decrease merchant processing costs. This will force community banks to compete, thereby driving down interchange rates across the board. This will result in a significant and unintended impact to income for community banks.

If the interchange fees proposed in the Federal Reserve rule are adopted, our institution would realize an impact to interchange fee revenue of approximately \$2 million; however, costs to operate our card program would remain unchanged. The proposed cap is not sufficient to cover even the most basic of processing costs if only the expenses in the proposal are included. This leaves the bank to sustain a considerable loss to cover the expense of the infrastructure, fraud losses, other processing, card issuance and network maintenance costs. If the proposed rules are adopted, community banks will be left with no choice but to either cease card operations or raise account service fees consumers pay in order to compensate. In addition, consumer benefits such as rewards programs will likely be terminated.

As you can see, there will be significant negative impact to both consumers and community banks if the proposed rules are adopted. I ask that you consider these impacts as you finalize the rules implementing the Durbin Amendment. Thank you for the opportunity to comment on the Federal Reserve System's proposed rule.

Sincerely,

A handwritten signature in black ink that reads 'Michele Kyle'. The signature is written in a cursive, flowing style.

Michele Kyle  
EVP, Chief Operating Officer