



February 14, 2011

Jennifer J. Johnson
Secretary
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 Ms. Johnson,

I am writing to comment on the Federal Reserve Board's proposed rules, released on December 16, 2010, that implement the Durbin interchange amendment to the Electronic Fund Transfer Act (EFTA Section 920). As we understand it, the rules set standards for limiting interchange fees on debit card transactions and prohibit issuers from restricting payment card networks. These proposals will create undue hardship on our company, other community banks like us, and our customers.

Regarding the restrictions on interchange fees, neither of the two proposals will permit our bank to cover the costs of debit card transactions. In establishing the fee cap, the respective calculations only allow for direct costs that vary with the number of transactions sent to the issuer. The Board is not including network fees, the cost of inquiries and disputes, fraud losses and prevention costs, and fixed costs that would include capital investments and a reasonable profit. All of these are relevant costs that we incur in providing this service to our customers. It is our belief that an interchange fee that does not include these factors is not a "reasonable" fee as mandated by the statute.

Concerning the payment card network rules, both alternatives will result in an increase in the number of networks we use and the possibility of merchant discrimination against community-bank issued cards. However, if a choice is to be made, we believe the Board should implement Alternative A as a more practical approach. If Alternative B were utilized, we would be required to have and manage multiple and unneeded PIN and signature network relationships which would create additional costs with little benefit to the consumer. Alternative B also would require, in many cases, the customer inconvenience and the additional bank expense of re-issuing cards.

Ultimately, we believe that the proposed rules limiting interchange fees constitute government price controls that lead to inefficiencies in the system, would stifle innovation, and simply do not work. Even though our organization technically is excluded from the implementation of the fee cap as a financial

institution with less than \$10 billion in assets, marketplace realities will drive business to the lowest-cost provider – typically larger banks – and away from community banks like ours.

We appreciate the opportunity to comment on the proposed rules and trust that our concerns will be carefully considered during the review process.

Respectfully,

A handwritten signature in black ink, appearing to read "John C. Clark". The signature is fluid and cursive, with a long horizontal stroke at the end.

John C. Clark
FIRST STATE BANK
President and CEO

JCC/ps