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UNION

February 8, 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,

Thank you for the opportunity to comment on the Federal Reserve System's proposed Debit Card Interchange Fees and Routing rule.

I am opposed to this proposed rule. As Chief Executive Officer of Union First Market Bank (Union), a $3.8 Billion bank based in Richmond, Virginia with over 1,000 teammates and almost 100 branches, I have grave concerns with the proposed rule and the impact of its implementation.

Most merchants accept five forms of payments for their goods; cash, check, check conversion to ACH, credit card and debit card. When the merchant accepts cash their payment risk is zero, but they become subject to handling costs and significant security concerns. When a merchant accepts a check, they assume payment risk, handling costs and minor security concerns. Some merchants convert customer checks into an ACH format which reduces handling costs but carries the same payment risk as checks. When a merchant accepts either credit or debit cards the payment risk is zero, the handling costs are minimal, plus there are no security concerns. It seems to me debit cards provide retailers their best form of payment and the banking system deserves a fair return for providing that convenience, assuming fraud risk, building and supporting the card system and infrastructure, and for maintaining the customer relationship.

First and foremost, I believe that price fixing of any kind goes against the capitalist system that makes the United States of America great. One need only look at the fiasco of the "old oil" "new oil" price fixing efforts in the mid 1970s to see a failed attempt by the government to control prices. Moreover, the rule does not appear to "fix" the price for either of the two primary parties, the merchant and the debit card customer. Rather, the proposal would limit what only one of a number of entities in the transaction chain can receive with the rest being allowed to reap what the market provides. This is poor policy and defies common sense, even if one approves of price fixing.

If the Federal Reserve had wished to turn the debit card system into a utility, it missed the mark. As you know, utility rates are based upon costs, including infrastructure, plus a reasonable return to its stockholders so that the utility can attract the capital necessary to allow it to continue to invest in its network and delivery of its product. In the case of the proposed rule, it appears that you have given guidance or set the maximum revenue rate at the incremental cost without consideration to the ongoing demands of the delivery system infrastructure including the cost of fraud. Said another way, it is clear the Fed failed to include a wide range of "reasonable and customary costs" of a debit card transaction in their calculation of the fee. For example, Network fees, dispute resolution costs, fraud losses and fraud prevention efforts, as well as, infrastructure investment all should be a part of the Fed's calculation.

Union does not set the retailer fee, nor do we control our incurred cost for these transactions. We are subject to fee arrangements set by merchant service providers and we are charged fees primarily by NYCE, Visa and our card processor. Reducing fees available to the banks that make debit card transactions possible will not benefit the debit card holder; at best it may reduce fees for merchants and thus increase their profits. The merchant, Visa, and others involved in the transaction set the fees and the merchants pay the fees because the value of the service is worth the price. What is to keep Visa and others in the transaction chain from keeping the fees to merchants the same and simply increasing their profits while the banks fail to cover their costs?

The customers of Union used their debit cards to purchase goods from retailers 14,102,912 times in 2010. Our cost per transaction was $0.145 per transaction last year. What concerns me is the potential loss of revenue to Union. If, in 2010, Union was under the $0.12 fixed revenue, our revenue on debit card transactions would have been $4.7 million LOWER and reduced our overall net income by more than 20%. The loss of this debit card revenue would have far reaching impacts on capital levels, dividends and our ability to grow. This severe loss of revenue and income would require Union to eliminate free checking products, reduce donations to community groups, increase service charges on deposit accounts and fees to customers and raise loan rates.

You might wonder why I am so concerned about this rule since Union is currently exempt from the revenue price fixing. I have a high degree of respect for the forces of market economics, which the Durbin amendment to the Dodd Frank Bill and this proposed rule seem to ignore.

I am concerned that large retailers will discriminate against Union customers because the retailers will be paying a higher fee if the Union debit card is presented for payment as opposed to the card issued by one of the price controlled banks. What options will Union management have when the large retailers implement this strategy? Union would find itself in the same price fixed structure as the large banks and lose money on every transaction rather than have customers switch to one of the larger banks. Also, of concern are the potential unforeseen impacts that price fixing could have on the payments system as alternate unregulated providers such as Pay Pal or retailer owned cards enter the market place.

Union has been advised that Visa, our card association, will run a dual interchange system that allows for the price controlled and non-price controlled banks to operate within the rule. What is to keep Visa, or any other network provider, from revenue and cost shifting to the non-price controlled banks? I can envision retailer fees, especially small retailers since they have less clout, paid to the non-price controlled banks rising. I also envision the per transaction costs passed to the non-price controlled banks by the networks to increase as well, and likely these increases will not be in proportion.

In summary, I am opposed to the rule because of the poorly conceived price fixing rule, the potential adverse impacts the revenue fixing could have on Union's profitability and its ability to offer free and low cost services, the potential impact of market forces on Union's customers, and the potential of revenue and cost shifting between the price controlled banks and the non-price controlled banks.

Sincerely,

G. William Beale
Chief Executive Officer

cc: Senator Mark Warner
Senator Jim Webb
Majority Leader Eric Cantor
Frank Keating, ABA