



The Bank of Southside Virginia

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J. PETER CLEMENTS
PRESIDENT & CEO

February 17, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

Re: Debit Interchange Fees and Routing;
Docket No. R-1404 and
RIN 7100-AD63

Dear Ms. Johnson:

I write today as a community banker to comment on the Federal Reserve Board's proposed new Regulation II (Debit Card Interchange Fees and Routing) to implement Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Senator Durbin's amendment directed the Federal Reserve to set price controls on debit card interchange transactions. The Fed is directed to determine a reasonable and proportional fee to the merchant for use of the debit card payment network, considering only certain incremental costs of clearing a specific transaction. However, there is no consideration of the overall costs to maintain and improve the U. S. payments system, the costs of fraud, and the need for return on capital, among other things.

The Durbin Amendment included an exemption for banks under \$10 billion in assets, but the competitive market will clearly drive all debit interchange fees down to the Fed's set rate. As a result, community banks like mine will have to make difficult choices, including not issuing debit cards, raising other fees, eliminating staff and limiting other services that customers have come to expect. The unintended consequences of setting a price on debit interchange rates could mean higher costs to consumers for basic banking services, more limited choices for bank customers, and increased revenue to large retailers at consumers' expense.

As proposed, the government price-fixing by the Fed would reduce my bank's debit interchange revenue by over 70% and our cost to offer debit cards would not even be covered. This will significantly affect my bank's ability to offer this important customer benefit. In short, my customers and the communities we serve will be greatly harmed.

I urge the Federal Reserve to weigh these issues carefully in light of the potential transfer of over \$14 billion in interchange revenue to large retailers with no benefit – in fact, with harm – to consumers.

Thank you for your consideration in this most important matter.

J. Peter Clements
CEO / President