

From: The Citizens Bank of Winfield, William Russell Carothers
Subject: Reg I I - Debit card Interchange

Comments:

February 22, 2011

Jennifer J Johnson
Secretary, Board of Governors of the Federal Reserve System
20th St and Constitution Ave, NW
Washington, DC 20551

Dear Jennifer Johnson:

To Whom It May Concern:

Problems with Interchange Price-Fixing

As they are now, Interchange fees, set by card networks, are paid by merchants to card-issuing banks and credit unions, allowing everyone to benefit from debit card transactions. Consumers get convenience and security. Merchants receive more efficient, guaranteed payments and higher counter sales. Banks and credit unions are compensated for processing those payments and for maintaining highly complex, well-functioning payment systems.

Supporters of interchange price-fixing claim that forcing card issuers to charge merchants drastically lower interchange fees will eventually lead to lower prices for consumers. But when Australia imposed a similar government price-setting experiment in 2003, merchants did not pass on savings to consumers. They just pocketed the profits and continued to benefit from debit card benefits, even though they weren't paying their fair share. These profits will then go to the Wal-Mart's etc. along with the largest financial institutions leaving community banks not even covering their cost. This at a time when community banks are being forced to mark to market charge off loans and reserve for loan losses.

In the United States, government price-fixing will make it harder for community banks to compete with the largest institutions and provide their customers with the products and services they expect. Draconian cuts to debit card revenue will result in higher fees to their checking account customers and force many community banks to stop offering debit card reward programs and other services that are currently free, resulting in fewer choices for consumers.

In fact, a recent Independent Community Bankers of America survey found that 93 percent of the community bankers who responded said they will have to charge their customers for services that are currently offered for free if this plan is implemented. Nearly 20 percent said they will have to eliminate jobs or halt plans to open new bank branches.

An Unworkable "Exemption"

To persuade community banks like mine to embrace government price-fixing,

Congress included an exemption for financial institutions with less than \$10 billion in assets. There's just one problem-the exemption is not going to work. Community banks and their customers are still going to suffer.

Community banks and their customers will not be protected because retailers will now have control over routing debit card transactions, allowing them to bypass smaller institutions. Further, large retailers will be able to steer customers to use the rate-controlled cards issued by the largest financial institutions. Small retailers will benefit little and will be hurt in the long run along with small community banks and credit unions.

Washington is working to address the risky behavior of Wall Street and the unregulated "shadow banking system." Main Street community banks and their customers, who played by the rules and made responsible financial decisions, should not have to suffer the consequences of the reckless behavior of others.

This government intrusion into the debit card market will make it harder for community banks like mine to provide customers with the financial services they expect and will have a negative impact on our nation's economic recovery. We at The Citizens Bank of Winfield have been asking Congress to overturn this government mandate. We have recommended that everyone in this community who value the localized service and sound financial decision-making only community banks can provide do the same.

Sincerely,

W. Russell Carothers