



February 22, 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:

The Minnesota Bankers Association (MBA) appreciates this opportunity to submit our comments on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule. The MBA is a trade group representing 401 banks in Minnesota. The MBA membership includes a broad range of banks, from independent community banks to regional banking organizations operating in multiple states.

The MBA opposes the proposed rule because we believe the safe harbor is ineffective, the drastic reduction in interchange fees and the network requirements would injure our member banks, and the end result of the rule would be higher-priced bank services and an increase in the number of unbanked consumers.

We appreciate Congress' attempt to exempt small issuers from the price control elements of the Durbin Amendment. Unfortunately, the proposed rule provides no protection to small issuers from market forces. We believe that economic forces will force all small issuers to adopt the same price level or risk losing market share to the largest institutions. Consequently, all issuers will end up being subject to the same fee cap.

We oppose the fee cap because it is a government price control and because it is a price control that does not allow the provider to make a reasonable profit. Government price controls are bad public policy and do not work. Most economists agree that price controls generally do not accomplish what they are intended to do. This is certainly the case here as the intent of the price control is presumably to lower costs for consumers, but the end result is lower costs for merchants who are not required to pass the savings on to consumers. In the end, consumers will not benefit and will actually be harmed by the increased bank fees necessitated by the price control.



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This particular price control is more egregious than most in that it does not allow the provider of the service to cover its costs, let alone make a reasonable profit. The Federal Reserve's interpretation of "reasonable" fee does not take into account network fees, the cost of inquiries and disputes, fraud losses and fraud prevention costs, fixed costs, including capital investments, and a reasonable profit. A fee that does not take into account these factors is not a "reasonable" fee as mandated by the statute. We believe such a price control will naturally lead to inefficiencies in the payment system and will stifle innovation and improvements.

Another costly proposition in the rule is the network routing requirement. "Alternative A" which requires two unaffiliated payment networks is preferable to "Alternative B", but it is still burdensome. "Alternative B" goes beyond the Durbin amendment by requiring banks to have and manage multiple PIN network relationships, creating costs with little benefit. Alternative B would also require multiple signature networks be deployed on one card. This is impractical as currently the signature card payment systems do not support such a choice. In addition, Alternative B would require re-issuance of cards in many cases, which is an unnecessary expense and an inconvenience for customers.

Because debit cards are tremendously popular with consumers, banks will need to continue to offer them in order to remain competitive. If the cost of the cards can't be recovered in interchange fees, banks will be forced to find new revenue sources. Obvious options include new maintenance fees and other fees on checking accounts. Because the cost of banking will have to increase for consumers, it is expected that low and moderate income customers will find it more difficult to maintain bank accounts and that some will have to turn to more expensive, less convenient, non-traditional banking services.

For the above reasons, MBA strongly opposes the proposed rule. If you have any questions or comments, please feel free to contact me.

Sincerely,

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