WSFS bank
We Stand For Service™

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February 9, 2011

The Honorable Ben Bernanke
Chairman of the Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Durbin Amendment and Interchange Proposal

Dear Chairman Bernanke:

The recent Dodd-Frank financial services law mandated that the Federal Reserve come up with a new pricing structure for debit card transactions (i.e., interchange proposal) that is, generally speaking, reasonable and proportional to the costs. The Federal Reserve's initial proposal, currently open for comment, I believe, falls well short of Congress' intent, is harmful to the industry and community banks like WSFS, and ultimately harmful to the consumer.

First, I believe the amendment itself, which was added at the last minute and without adequate vetting, represents a price control, may be unconstitutional, and is dangerous interference by the government in our free market system. That is my opinion and may or may not be shared by others.

Second, notwithstanding that philosophical difference, the Federal Reserve's attempt does not meet its mandate to come up with pricing that is reasonable and proportional to the costs. As proposed, pricing would be fixed per transaction and fixed at a very low rate (a 70%-85% reduction on average to the current variable pricing). Many acknowledge it does not even cover the costs of the significant investment in the system built over many years and maintained every day by banks and card companies. Further it does not even consider the significant costs of fraud-- prevention, detection and assuming fraud losses—most of which fall squarely on the banks' shoulders. It also does not provide for any rate of return on that investment and risk. Further, it is imposing a fixed price we can charge on a cost that is variable. Taken all together this is NOT a viable business model for anyone.

Business models that are not viable ultimately hurt all constituents. Therefore, if it goes into regulation as is, banks will have to increase pricing on issuing debit cards and other products to make up for subsidizing this very popular form of payment, or reduce employment or services provided. Furthermore, because it will be inherently subsidized for retailers, as compared to other forms of payment they can accept, (cash, checks, credit cards, etc.) this regulation will, over time, direct even more traffic to debit cards, making the problem worse. Banks will have to raise other prices to offset the increasing subsidy or further reduce employment or services offered. This will ultimately hurt the economy or cost consumers more and more money, while big-box retailers primarily benefit from the government-mandated, below-cost, fixed-price payment scheme that banks subsidize.

Lastly, the debit card is a signature relationship product for WSFS and its customers. We were one of the first banks in the country to introduce this product, and our customers love the product and use it often as a matter of their own choice (not directed by anyone). While the law technically exempts smaller banks like WSFS from this regulation, we know that market forces are efficient and ultimately retailers will re-direct purchases to their lowest cost option. Retailers, at the point of sale, may not allow WSFS debit card use, or retailers may redirect purchases to another bank's card that has a better government-mandated fixed rate for the retailer. This has severe implications for our product usage, income, and the value we provide to our customers as their primary bank, and could lead to relationship and account erosion over time (unless we adopted the lower, below-our-cost rate, which circumvents the law's intent) – all to the benefit of larger banks who have economies of scale to limit the impact of this subsidy.

For all those reasons: its bad public policy; its being implemented hastily, and unfairly to the detriment of banks and ultimately consumers; and it has a potentially huge negative impact on community banks like WSFS, I'd ask for greater study of this proposal – its fairness and its potentially significant and harmful unintended consequences.

Thank you, and if I can be of help in this important dialogue, please feel free to contact me.

Sincerely,

Mark A. Turner
President and CEO

MT/kq

Cc: The Honorable Thomas R. Carper, U.S. Senator
The Honorable Chris Coons, U.S. Senator
The Honorable John Carney, U.S. Representative