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February 16, 2011

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20 Street and Constitution, NW  
Washington, DC 20551

Regarding: Docket No. R-1404 and RIN No. 7100 AD 63

Dear Ms. Johnson,

I wish to share information on the Federal Reserve proposed rules as required by the "Durbin" Amendment under the Wall Street Reform Act.

We are a \$600 million Community Bank in Massachusetts. We have issued 10,300 debit cards to customers at their request.

In Calendar 2010 we processed 1,078,009 debit card transactions. We received \$458,444.79 in income over the same calendar year to compensate us for the services provided.

In addition to direct costs, we incurred \$12,530 in losses related to debit cards. These losses vary significantly year to year. As an example, the infamous Heartland breach affected 2,905 of our customers. In addition to outright losses, we closed out the compromised cards and reissued new cards. The average cost of this reissue was \$20.00 a card with production, accelerated delivery and protection included. Therefore we spent \$60,000 to protect our consumers because a retailer could not protect their system. The settlement we received was \$875.90.

The proposed rules are a "cap" not a guideline. If the 7 cent proposal is implemented, our income on debit cards will be reduced \$372,784.15 or 81.3%.

If the 12 cent proposal is implemented, our income on debit cards will be reduced \$329,082.90 or 71.8%.

The proposal “tiptoes” around addressing fraud prevention. Let’s look back at the \$60,000 costs to our institution because of just one retailer’s security breach. Under the 7 cent proposal our revenue and expense total would be equal without consideration of overhead, let alone profit.

Thus you need to understand I believe the Fed Study and the resulting proposed regulations are basically a flawed analysis on costs. I also believe the study was produced based on the assumption that the conclusion should insure that bank revenue “must” be cut back.

The “Durbin” Amendment was sold to Congress as pro consumer. I believe in practice it is really anti bank. The revenue that banks will not receive will stay with the larger retailers. I believe the large retailers promised to return this money to the consumers via lower product cost. So at the end of the day, the mandated caps reduce bank income and increase retailer income. The price fixing required sets maximum fees banks can charge but there is no resulting requirement on retailers as to price lower.

The banks will have three choices 1) absorb the reduction in revenue and reduce net income, 2) cut expenses in other categories to compensate for the reduction in fees. This could reduce products available to consumers and 3) increase fees on other products which could be interpreted as anti consumer.

I believe the study is flawed for one of two reasons 1) the interpretation of the words of the “Durbin” Amendment or 2) the study itself that fails to include all costs.

As a result, the only winner will be the retailers but probably only the large retailers.

The Fed’s original mission seemed to contest antitrust actions. Now the Fed’s mission seems to encourage it.

Sincerely yours,



Joel G. Crowell  
President