



Gerald H. Lipkin

Chairman of the Board, President & CEO

February 14, 2011

Ms. 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:

We are writing to express Valley's strong opposition to the proposed rulemaking issued by Board of Governors of the Federal Reserve System (the Board) entitled "Debit Card Interchange Fees and Routing."

Valley National Bancorp is a regional bank holding company with over \$14 billion in assets, headquartered in Wayne, New Jersey. Its principal subsidiary, Valley National Bank, is a mid-sized national bank that currently operates approximately 200 branches in 135 communities serving 14 counties throughout northern and central New Jersey, Manhattan, Brooklyn and Queens. Founded in 1927, Valley is the largest commercial bank headquartered in New Jersey.

Although Valley's concerns are detailed below, Valley's opposition can be summarized very simply: ***The adoption by the Board of either of the proposed alternatives will have a significant detrimental effect on consumers, the exact opposite result from what was intended in passing the Dodd-Frank Wall Street Reform and Consumer Protection Act.*** Valley urges the Board to revise the provisions of the proposed rule to minimize the damage to consumers as much as possible.

Banks will earn less and their Customers will pay more.

Valley estimates that implementation of the rule as proposed will reduce Valley's revenues from interchange fees by an estimated \$4.8 million or 82%. In order to maintain profitability and recapture the cost of providing debit cards, Valley anticipates that it will institute new charges for debit card services, and/or increase checking account and other fees. While the precise impact the proposed caps will have on Valley's customers is unclear at this point, what is clear is that costs to Valley's customers will go up to cover the costs of providing debit cards. The numerous comments from other financial institutions already published by the Board indicate that they also will be increasing fees to their customers. "Free" checking will soon be a thing of the past. Other adverse impacts on consumers could include restricting the availability of debit cards to only those customers who maintain larger balances, implementing higher minimum balance requirements for all customers, or assessing maintenance or other fees on checking accounts.

Phrased a little differently, implementation of the proposed rule will restrict the banking products and services available to lower income people, resulting in more "unbankable" Americans.

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For the benefit of ... Retailers??

The proposed rule will ultimately result in a government-mandated transfer of revenue from the banking sector to the retail merchant sector. As objectionable as that is in a free market economy, it is highly unlikely that the resulting increase in fees for banking services incurred by consumers will be met with an equal, offsetting decrease in retail prices. Historically, few retailers have ever priced their goods and services differently for customers who pay with cash rather than a debit card, and retailers are unlikely to reduce prices on the products and services they sell. The result will be a windfall benefit to retailers at the ultimate expense of consumers through higher banking costs.

Moreover, in calculating the maximum interchange fee, the proposed rule does not adequately recognize the important, substantive differences between debit cards and checks, *and the shifting of nonpayment risk onto banks and other financial institutions that results from the use of debit cards*. When a consumer uses a debit card, the merchant benefits from guaranteed payment on the sale, while the financial institution that issued the card suffers any losses incurred if the retailer's customer cannot pay. The card issuers, not the retailers, have to incur the expenses for fraud prevention and detection, and fraud losses, while providing customers with zero liability protections in most instances.

In contrast, only when a customer pays a retailer by check, and that check is returned as unpayable, does a retail merchant suffers a loss and incur the associated costs.

Based on an inadequate assessment of actual costs.

The Board should include in its calculation of the maximum interchange fee *all* of the enormous costs incurred by financial institutions that offer debit cards, including related network fees, costs for resolving inquiries and disputes, fraud losses and fraud prevention costs, and fixed costs, as well as a reasonable profit margin. Valley submits that a cap on interchange fees that does not take these basic factors into account is not fair or reasonable.

Summary.

These are just a few of Valley's concerns regarding the proposed rulemaking. Valley respectfully urges the Board to use the discretion provided to the Board in Dodd-Frank and reconsider the terms and structure of the limitations on interchange fees imposed by the Board through its rulemaking authority.

Valley is available to discuss these concerns with the Board at the Board's discretion.

Very truly yours,



Gerald H. Lipkin
Chairman of the Board,
President & CEO