

From: Reading Co-operative Bank, Julieann Thurlow
Subject: Reg I I - Debit card Interchange

Comments:

January 31, 2011

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

Dear Jennifer Johnson:

I am writing to you today to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule limiting interchange fees industry wide.

As the President of a 5 branch, 67 employee community bank, Reading Co-operative Bank in Reading, Massachusetts, I strongly oppose the limitation on interchange fees.

Interchange fees compensate the bank for more than just the cost of a checking account. It is estimated that a simple checking account costs a Bank approximately \$300 a year to support including data processing costs, statement rendering and postage, providing internet access and overhead and salaries for customer service. Competition had driven the consumer expectation of a "Free Checking Account" with Interchange income supporting the costs.

Banks are already proposing multiple new fees to compensate for an estimated 70% loss in interchange income. These new structures provide fee free accounts only to those with large average balances. Therefore, the "underbanked" or the consumers that most need an account at a bank to manage their budget and expenses will no longer be able to afford their checking account. These unfortunate account holders will return to the world of checkcashers.

Secondly, the calculation of permissible interchange fees does not recognize important differences between debit cards and checks. Fraud costs and reissue expenses for merchant data breaches are being borne by the banking industry entirely. Reissues are expensive and have become a weekly occurrence due to the lax security at certain retail establishments and processing companies. Far worse are the fraud losses when a customers account number is stolen. Just last week we reimbursed one customer for a weekends worth of charges on her debit card in Florida in excess of \$7000. If the multiple national merchants in Florida had verified signatures or identity we would not be out the funds.

These fraud instances are a regular occurrence for which Mastercard and Visa insist the financial institutions bear the burden; interchange allowed the bank to disperse this risk and losses over multiple transactions and relationships thereby alleviating the need to charge customers for the annual burden of the same.

Lastly, we recognize that as a small bank, we should be exempt; however, we also understand capitalism and creativity. If the retailers get a lower rate through accepting large bank cards; they will develop either a method to only accept the large bank cards or their own preferred manner of processing.

This proposal as well as the Dodd Frank Act is troubling in that it has bifurcated the industry and applied different rules to different banks. That should not be the case and price controls should not be acceptable.

We are prepared to restructure all of our products and services to replace this income in as fair a manner as possible, however, it will be customer not the retailer paying for the increased income. Wasn't this Act suppose to help the consumer? We are clearly moving in the wrong direction.

Respectfully

Julieann Thurlow
President & CEO
Reading Co-operative Bank