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Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:

Thank you for the opportunity to comment on the Federal Reserve's proposal regarding the Durbin amendment and debit card interchange fees. We are very concerned about the proposals impact on the banking industry and consumers in this country. The banking industry has worked diligently to create a payment system which we believe improves the flow of funds from customer to merchant. We have made a significant investment in developing the back office support and distribution fo debit cards. Our industry has effectively changed the payment system in this country for the better, and now we are being penalized for it. It is very disturbing to hear the comments of large retailers who say they will pass expected savings from card fees on to their customers. I have spoken personally to one executive of a very large national retailer who just laughed when I mentioned savings being passed through to consumers. I am confident that the proposed savings will simply result in improved profitability for the large merchants. It appears that the Durbin amendment is a well timed shot by large retailers at the out of favor banking industry, and the Federal Reserve proposal just makes it worse. The most disappointing part of the Fed's proposal is the artificially low cap that has been set. The majority of the costs of a community bank to administer a debit card program have been totally ignored when setting this cap. When reviewing this proposal, it appears that maybe the Federal Reserve prefers that our payment system return to the use of checks and cash. We are also surprised that the primary body regulating the banking industry, and one that is charged with helping keep banks sound financially, would present such an onerous proposal for the industry. In our opinion, this is another attack on the viability of community banking. The end result of these rules could be the difference between profit and loss on an annual basis for many small banks. We would like to point out that in the case of our bank, the debit income cap will be less than the network cost to process a transaction, which will in effect turn a revenue producing product into one that is actually an expense. In addition, we have significant other

costs relating to the production of cards, the expense of several staff members who do nothing but work with debit card customers, as well as considerable costs associated with fraud since we are guaranteeing payment to merchants who accept our cards. Therefore, this proposal will result in us having the expense of processing a transaction, and all the support costs of this product, with little revenue. The above mentioned costs will simply give us no choice but to eliminate the free checking account products, and will force us to implement annual fees for using debit cards. I am struggling to see how anyone could consider this proposal to be pro-consumer when it will be the low balance consumer who will be forced to pay for banking services that are now provided free. It is also very likely that many of our customers will choose to close accounts and exit the banking system altogether. I cannot imagine that this is the result of Congress or the Federal Reserve want to occur. Although we appreciate the effort of Congress to exempt banks with less than \$10 billion in assets from this proposal, there are few if any of us that believe this exemption will provide any real help. After conversations we have had with Visa and other large networks, it is apparent that any benefit will be very short-lived and we will quickly see our revenue move down to, or near the proposed cap rates. A community bank our size simply has no input in what network fees are charged to us or any negotiating power with the large merchants. We ask the Federal Reserve to please reconsider this proposal and withdraw it immediately, or at the very least we ask that you delay the effective date until Congress can hold hearings to analyze the true costs associated with the debit card process. If this proposal goes forward as presented, it will be a definite reversal of the automation of the payment system, and will truly cause an economic hardship for struggling consumers in this country. As a final point, I do respectfully question what this amendment has to do with the safety and soundness of our financial system in this country. This proposal does not seem to fit with the original purpose of financial reform. Once again, thank you for the opportunity to express my opinion on this proposal.

Sincerely,

Greg Allen
First State Community Bank