Negative Impacts of the Federal Reserve's Interchange Fee Proposal (Regulation II)

The proposal outlines that to obtain a safe harbor under the regulations, that a $0.07 cap be adopted on interchange revenue per transaction. Currently, our Bank (First Community Bank) makes approximately $0.20 per transaction. In the last *quarter of 2010, our Bank netted $38,328 of interchange revenue. If the amount were to be reduced by $0.13 per transaction, we would experience a quarterly net loss of $24,742 (down $13,586.37).*

In addition to this loss, we will have to continue to incur various forms of overhead that are increasing in expense to provide access to electronic payment networks. Some examples include fraud prevention, fraud losses due to consumer liability restrictions (Regulation E), risk management, and core processing arrangement expenses (this list is not all inclusive). As computer intrusions become more prevalent and hackers more successful at cyber attacks, our industry faces the growing financial burden of implementing more effective preventive measures to protect our customers with less income to offset this growing expense. Merchants who willingly accept debit/credit card payments and greatly contribute to this growing fraud (don't verify identity or authority of card presenter; don't implement fraud prevention measures) should bear some of this burden.

In addition, as we see revenue streams continue to be targeted (i.e., interchange, overdraft program restrictions, etc.) on basic checking account products, it is becoming increasingly difficult to operate free and/or low cost checking products without offsetting the costs to operate these products at some kind of a profit. What this will do, is essentially drive more low-to-moderate income individuals and areas to the more predatory and loosely regulated financial service providers (e.g., nonbank financial institutions, payday lenders, independent service organizations, etc.). This outcome will run contrary to other regulatory requirements (Community Reinvestment Act), recent FDIC initiatives to reach the "unbanked," and maintaining a traditional community bank image.

Lastly, this proposal will create an uneven playing field with those institutions directly impacted, as well as with nonbank financial service providers, which will compound the effect of the losses incurred by creating noncompetitive environment. History has shown that any market without competition has proven to have massive disadvantages to the public and economy as a whole.

In our opinion, the need to have a delay/further study on the implementation of the proposed rule is highly warranted.

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