From: Randy Ferrell

Subject: Reg I I - Debit card Interchange

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Comments:

February 15, 2011

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

Dear Jennifer Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

As CEO of The Fauquier Bank, Warrenton, VA with $600MM in total assets, I am writing to express our opposition to the proposed rule. As a community bank we have for the past 109 years served the financial needs of the area's small businesses and individuals. We continued our tradition of knowing our customers while maintaining a conservative yet quality-focused approach to lending, thus providing value to those who trust their financial relationships to us. We feel the Fed's recent proposal may result in unintended consequences which fail to address published objectives of a strong financial system which benefits all participants, including consumers.

The stated aim of Reg II is to address what constitutes appropriate costs for the provision and support of debit card transactions to the consumer. It is reasonable to assume that the Fed, within the mandate provided by the Dodd-Frank legislation, would allow an issuing institution to cover the full expenses associated with debit card issuance and maintenance. Based upon the comments from the Fed our bank has modeled the value proposition of debit cards for our customer base. The approach presently adopted by the Fed calculation method fails to take into account the total cost any issuer incurs in order to provide this service. Thus applied to our current service model, the issuance of debit cards becomes a less-than-profitable venture at best and a greatly unprofitable activity at worst. We ask that the Board consider the total cost of providing consumers a debit card and not limit these costs to authorization, clearing, and settlement. Because the proposal does not permit our bank to cover the cost of providing debit card transactions, our industry will see new maintenance and other fees on checking accounts.

While we understand and accept that change and guidance is appropriate when properly applied we request the Board exercise discretion to the maximum permitted under the statute which includes in the calculation of the fee: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; and a reasonable profit. We understand that "reasonable" is interpreted differently depending upon one's perspective (e.g. Bank, Merchant, Government). However, for a system to work efficiently as we know it possible, all parties, inclusive of Consumers, Merchants, and Bank, must therefore benefit and likewise share in the risk associated with debit card transactions. Government price controls are inappropriate for debit card transactions and government-sponsored price controls will lead to inefficiencies in the payment system and will stifle innovation and improvements. By its very nature this approach will stifle the very thing it desires to encourage.

We ask that you consider the ramifications of this process and seek to implement the guidance of Dodd-Frank in a manner which accomplishes the intended objective. We suggest that the Fed may not be acting in the best interest of the consumer and incorrectly considers debit card transactions another form of check transactions. This approach is flawed due to the fact that in transactions where the card is present, merchants are guaranteed payment and the issuer suffers the loss in the event there are no funds or a valid account. In contrast, checks may be returned and merchants suffer the loss. Therefore, Reg II guidance should serve to encourage the increase in debit card transaction activity in that the consumer derives the maximum benefit in convenience, fraud protection, and payment facility. It is the financial institutions bearing the cost of issuance, customer maintenance, and fraud protection and for doing so properly warrant compensation.

For the reasons stated above we are opposed to capping interchange fees at 7 or 12 cents. It will have a significant impact on our bank, the consumer and our operations. We also request that you adopt Alternative A as you consider implementation of Reg II. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. Adopting Alternative B yet adds to debit card cost and only exacerbates the cost model as currently proposed by the Fed.

Thank you once again for the opportunity to participate in this comment process regarding the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule. While we as a community bank with assets less than $10B are by law exempt from the provisions proposed by Reg II and subsequent merchant exclusion, we nevertheless remain concerned when considering what is regulation and what becomes market reality.

Ultimately we respectfully request that all parties involved arrive at a solution which meets the needs of constituents while not imposing an unnecessary and avoidable burden on certain parties, whether that obligation is intended or otherwise.

Sincerely,

Randy K. Ferrell