

From: Seneca Falls Savings Bank, Menzo Case  
Subject: Reg II - Debit card Interchange

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Comments:

February 16, 2011

Jennifer J Johnson  
Secretary, Board of Governors of the Federal Reserve System  
20th St and Constitution Ave, NW  
Washington, DC 20551

Dear Jennifer Johnson:

Seneca Falls Savings Bank opposes the Federal Reserve's proposal to implement the debit card interchange fees and routing provisions contained in the Dodd-Frank Act. Our opposition is first and foremost rooted in our belief that a free economy unfettered by government intervention is the most efficient and effective market. The Federal Reserve's proposition is nothing more than price-fixing, which has not worked in the milk, cheese, soy, corn, oil, steel or any other market! The Fed's proposal suggests a price cap of 12 cents per transaction, which is hardly sufficient to cover the cost of providing debit card services. Further, the Federal Reserve's position oversteps the bounds of the Frank-Dodd Act by imposing specific fee limitations rather than establishing standards for assessing interchange rates.

It's unfortunate that the horrific Dodd-Frank Act was passed by Congress. The speed at which the Act was poorly crafted, the manner in which debate was squashed and the lack of careful study and forethought does not excuse the Federal Reserve from implementing imprudent (equivalent to "unsafe and unsound") regulations that have not taken into account the costs and benefits to participants, be they merchant, banks, consumers, small businesses or payment card networks.

There is a false assumption imbedded in the Federal Reserve's thinking - that crafting some sort of price-fixing regulation specifically for banks with assets greater than \$10 billion will somehow not affect all banks. Nothing could be further from the truth. The reality is that any regulation proposed by the Federal Reserve that addresses debit card interchange fees and routing will affect us all.

Seneca Falls Savings Bank is a \$240 million institution servicing the Finger Lakes Region of Upstate New York. Our customers are no different than those located throughout our country. They have grown accustomed to using their debit card to pay for all types of purchases and services - from gasoline to lunch at the Downtown Deli to grocery items. The convenience of debit purchases is something that just a generation ago was unthinkable!

We have nearly 7,000 active debit cards used by our customers, generating upward of 525,000 transactions annually. Our interchange income is a significant source of revenue amounting to just under \$275,000 annually (about 1.4 cents per dollar processed!). However, that revenue is more

than offset by the costs associated with providing debit card services, which exceed \$400,000 annually before considering any operational or administrative cost allocations. We maintain the service because our customers expect it! Paper checks are nearly a thing of the past, and no one wants to go back to using those.

If the Federal Reserve's proposal is implemented, we will lose significant revenue which will undoubtedly cause us to increase service fees on all checking accounts and debit card transactions. We are already considering the imposition of a 35 cent debit transaction fee (which is already being assessed by our competitors). We are also reviewing the possibility of reducing the number of debit cards issued by establishing new eligibility requirements. Undoubtedly, we will begin to be less accommodative to riskier accounts as we cannot afford the exposure. Further, we may have to eliminate our debit reward program and free checking, as the cost of providing these programs and services is prohibitive.

We urge the Federal Reserve to implement that which is required by the poorly crafted Dodd-Frank Act - "standards for assessing" rather than explicit pricing caps. Banks of all sizes should be allowed to earn a reasonable profit margin by offering debit cards or at least to absorb costs to the extent considered necessary to offer debit cards. The government should not price fix! It's just plain unAmerican.

In the event that the Fed cannot help itself and must act irresponsibly as Congress has over the past eight or so years, then please consider Alternative A which permits card issuers to satisfy the requirement to enable cards to process transactions over "two unaffiliated payment card networks." Hopefully, under Alternative A the costs will be lower for small banks such as Seneca Falls Savings Banks and our merchant customers - all who qualify as "small business." In addition, it is likely that their will be lower risk for merchant discrimination.

In conclusion, we hope the Federal Reserve will rethink their position and not implement price fixing - further eroding small bank earnings and impacting the quality of life of millions of customers. Rather, we hope that the Federal Reserve will act prudently and complete a comprehensive study before finalizing any rule.

Sincerely,

Menzo D. Case