

From: Melissa Mitchell  
Subject: Reg I I - Debit card Interchange

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Comments:

February 18, 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:

I would like to express my concern regarding the effects that the Dodd-Frank interchange rules are going to bring about. They are being touted as consumer protection but in reality consumers will be harmed by the proposed changes. Interchange rates are being drastically cut for banks with no regard to the true costs of doing business on debit cards.

The guidelines say they are based on certain costs of processing but in my opinion they have left out the costliest expense which is losses banks incur on debit cards. All liability for losses on these instruments lies on the bank. Visa has a huge advertising campaign based on zero liability. So true-zero liability for the consumer and for Visa. But this means the bank assumes all this liability. And with the increase in electronic crime these losses can sometimes be crippling for a bank. In the past these losses have been incredibly painful for a bank but at least you knew you were making some interchange income to offset these losses. Now that the proposals plan to drastically cut this income, banks will have to look elsewhere to build income or cut expenses to be able to absorb these losses.

I fully expect to see banks completely discontinue free checking and increase fees across the board in an attempt to balance this out. As a community banker, we want to focus on our customer and we attempt to keep their costs down as much as possible. But these losses must be covered somewhere. Long term, this is going to be much more costly to the consumer. And I think we all know that merchants are not going to cut their prices across the board since they're paying less in interchange expense. So the average consumer will see no break at the retail store and end up paying more fees at the bank.

The act is written with an exemption that will cover community banks. But, although the act will not require us to change our interchange rate, most likely competition will force this over time as merchants determine that certain cards provide them less costs and they start favoring one card over another or even declining to accept certain cards. All banks will feel the impact from this change.

I hope that you will voice your concerns regarding this program. At the very least, this liability should have been considered. The final effect on the consumer has not been considered and I appreciate your assistance in being the voice for your community banks and for the

consumer.

Sincerely,

Melissa Mitchell