Uwharrie Capital Corp

February 2, 2011

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

Re: Docket No. R-1404 and RIN No. 7100 AD63
Debit Card Interchange Fees

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Board of Governors of the Federal Reserve System proposal on Debit Card Interchange fees. <u>I have never commented on any pending banking legislation in the past</u>, but I feel compelled to do so in regard to this proposed legislation as it is that important.

My company, Uwharrie Capital Corp, is a multibank holding company located in North Carolina. We own 3 community banks - 2 in rural communities and 1 in a county between a metropolitan area and rural counties. We are approximately $500 million in assets and employ 180 people.

Debit card interchange fees are a very important issue for my company, for the banking industry, and for my customers. It is not so much the revenue we generate from debit card interchange fees as it is a matter of covering our costs to offer this service. As I understand the proposed legislation, the fee limitations being proposed are between 7 and 12 cents per transaction.

As we are a relatively small company, we rely on service providers external to our company to process the transaction. <u>Their charge to us on each transaction under our current contract is</u> **<u>11.59 cents</u>**. At the fee indicated under the legislation, there is no revenue to offset our internally-borne costs of personnel to establish and maintain the account, or for problem resolution/questions on the account for our customers, our internal technology (e.g. computers, network, etc. our own personnel use), ATMs used by our customers (and costs to maintain, electronically connect, stock with cash, armored transport of cash, etc.), security systems related to the ATMs, card and transactions, support costs for or personnel (e.g. HR, Accounting, Facilities, etc.), for the cost of the plastic itself, regulatory reporting, or for fraud and other losses associated with offering this valued service to our customers. We also provide Merchant Services to the businesses that take debit cards for transactions (another litany of costs to support this related service).

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Some may argue that the legislation should include fixed costs into the fee calculation. This is fraught with additional problems as costs are not fixed, especially over time. This is no different than the Government mandating what a house should cost, or an airline ticket, or a sandwich. Price controls in this instance are compounded by the "exemption" for banks under $10 billion in assets from the cap rule. The merchant handling the transaction is incented to discriminate favoring large institutions or providers, thus forcing smaller banks to either drop the service altogether or at a minimum suffer a loss on offering the service to protect the customer relationship it has.

Government price controls are totally in appropriate for financial services. The recent changes to credit card laws are a case in point. Regulations are barely implemented when Washington sends out new rules and interpretations which add considerable costs for reworking systems, policies, compliance and inevitably lead to even higher costs for the consumer, or even be denied the product as a result, no matter how well intentioned the legislation is.

As I began my banking career, financial institutions offered loans and savings instruments at mandated prices. There was no free market to determine the appropriate level for these products. After price deregulation, competition drove prices to levels that caused financial institutions to be effective and efficient, and the public benefited. I strongly urge the Board of Governors of the Federal Reserve System to reject this legislative mandate.

Debit card interchange fees legislation is, frankly, a monumentally bad idea.

Sincerely,

Brendan P. Duffey
Chief Operating Officer
Uwharrie Capital Corp