From: SpiritBank, Joyce K Madewell

Subject: Reg I I - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:
SpiritBank, a $1.3 billion bank operating, has grave concerns over the contents of the proposed rule. Although there is a purported exemption for banks of our size, we do not believe it possible to maintain a two-tier pricing system. We believe that marketplace pressures will limit or fully eliminate any benefit to banks our size. Merchants will have an economic incentive to drive transactions to the lowest cost payment vehicles - those large banks obligated under this rule to be the low cost provider. The unintended consequences of this will be to drive checking account transactions to the large banks, or force banks under $10 billion into a further loss position on checking accounts (see below). Many will not be able to sustain such losses on this vital core deposit. Industry costs for a consumer checking account is about $84 per year on average. Our bank has 17,119 checking accounts for a cost of $1,437,996 per year. Interchange fees have helped to off-set this cost to allow free checking for consumers. Another unintended consequence of this proposal would be for this cost to be passed to consumers, eliminating its purported intent of consumer protection. Up until this time, the interchange fee has been absorbed largely by merchants who in turn receive immediate cash flow for the purchase, little to no risk on the transaction, and no checks returned insufficient. Prior to debit cards, merchants did not receive these benefits for which they now pay and incurred greater costs in processing and collecting payments, often resulting in a loss of merchandise and payment to them. The bank pays for the immediacy of the cash to the merchant while taking all the risk for fraud, returns, etc. SpiritBank wrote-off $325,788 in debit card fraud in 2010 and spent $43,013 on fraud systems with ongoing annual expenses. With negative interchange income under the proposal, plus risk and fraud cost, our bank would be in a difficult position to either discontinue debit cards (effectively exiting us from checking accounts - a vital core deposit) or pass the cost on to the consumer who has not had to bear the cost up until this time. Under a $.12 cap, the negative cost impact to our bank would be $1,124,074. These are our very serious concerns. While hope is not a strategy, it is our only hope that the Federal Reserve Board will allow true

safe harbors for all banks to effectively operate in the best free market system the world has ever known. This system has provided robust economies, jobs and valuable services to the consumer at a fair price. While there is no doubt always room for improvement, particularly in the markets causing the most recent turmoil (which is not commercial banks) we ask that the free market system not be breached by dictating an arbitrary price. At any time, any company in America can enter this free market system to compete with Visa and MasterCard, providing lower interchange fees if able to do so with the mountain of regulation, risk and capital requirements inherent in this business. It should be then, and only then that pricing on interchange fees are set - by the free market system. With all this said, we recognize the difficult position of the Board to implement the punishing and ill-conceived elements of Dodd Frank. We stand ready to work with the Federal Reserve Board on salvaging what we can of what was a robust banking system. Very respectfully, Joyce Madewell