From: Bank of Advance, Harold M Miles

Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:
This letter is written to express my concerns regarding the proposed debit card interchange rules. I am the President of the Bank of Advance, a family-owned, community bank in Advance, Missouri, with assets of $239 million. We employ 65 people in 3 branches in southeast Missouri and 2 branches in Illinois. We provide consumer and commercial deposit and loan products to markets that are primarily rural agriculture based communities with some light industry. We are opposed to the proposed interchange rules for reasons specified below. First, the small bank ($10 billion and less) exemption will not protect our bank or any other community bank from market forces. It is unreasonable to assume we can continue using our current pricing model when large banks will be required to provide debit card transactions at a much lower price. Competition will drive merchants to the low cost provider, thus abandoning small banks that continue with their current pricing models. We project our income derived from interchange fees to be reduced 68% (assuming the $0.12 per transaction cap) resulting in a reduction of $205,454 per year. As a result, we will no longer be in a position to offer free or low cost checking accounts and free debit card services. Customers will be asked to bear the increased costs that we small banks will incur as a result of the new rules. Such costs will be recovered in the form of new and higher monthly account maintenance fees, higher minimum balance requirements, fees for debit and other transactions, new annual debit card fees and new and higher ATM fees. Low income customers will find it very difficult to maintain a bank account driving them away from traditional banking services. Second, we ask the Board to exercise discretion to the maximum permitted under the statute. The Board should include in the calculation of the fee: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs; capital
investment costs and a reasonable profit. A reasonable fee must take all of these factors into consideration. Third, debit card transactions are

fundamentally different from checks, which the proposal does not address. This difference includes the fact that in debit card transactions where the card is present, merchants are guaranteed payment while the issuer (the bank) accepts the risks associated with providing that guarantee. We should be adequately compensated for incurring that risk. In contrast, checks may be returned unpaid and merchants suffer the loss. Fourth, the Board should adopt alternative A in implementing the routing requirement. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. Alternative B would require us to maintain multiple PIN network relationships, creating costs with little benefit. Alternative B would require multiple signature networks be deployed on one card. This is impractical because the signature card payment systems do not currently support such a choice. Alternative B would also require re-issuance of cards in many cases, an unnecessary expense and an inconvenience to customers. For the reasons stated above we are opposed to capping interchange fees as proposed. It would have an extremely negative impact on our bank, our customers and our operations. We are also opposed to the adoption of Alternative B for routing debit transactions. Alternative A is a more practical approach. Thank you for the opportunity to comment on this proposal.