From: First Tennessee Bank National Association, David W Miller

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:
February 21, 2011 Ms. Jennifer J. Johnson Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, N.W. Washington, D.C. 20551 Re: Proposed Rule on Debit Card Interchange Fees, Docket No. R-1404 Dear Ms. Johnson: We appreciate the opportunity to comment on the above rule proposed by the Board of Governors of the Federal Reserve System (the "Federal Reserve") (the "Proposed Rule") to implement the debit interchange provisions (the "Durbin Amendment") of Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). First Tennessee Bank National Association is a regional bank with $24.5 billion in total assets as of December 31, 2010. Our 5400 employees provide financial services through more than 180 bank locations in and around Tennessee. As an issuer of debit cards -- the use of which now exceeds all other forms of non-cash payments -- we, along with numerous other financial institutions and trade associations across the country, have great concern over the future of debit card usage should the Proposed Rule go forward as currently drafted. We simply do not find either of the alternatives contained in the Proposed Rule - the 7-cents-per-transaction "safe harbor" with a 12-cents-per-transaction cap; or a standalone 12-cents-per-transaction cap - acceptable if we desire to continue providing the level of banking services to which our customers have become accustomed without making drastic changes that will ultimately be detrimental to those customers. LOSS OF REVENUE Simply stated, the Proposed Rule does not permit us to cover the cost of debit card transactions. Such costs include, among others, overdraft losses, fraud prevention, billing and collection, card production, consumer data protection, and statement production. With a proposed range of 7 - 12 cents per transaction, estimated to result in somewhere between a 70-90 percent loss of interchange revenue, not only will we be unable to cover costs, but we - along with all financial institutions -- will have to consider a number of other avenues for income to make up for such drastic reductions. For a number of years, banks have been able to provide many of its

services free of charge. Free checking accounts, free online banking, and free debit cards are only a few examples. If the Proposed Rule is implemented in its currently drafted form, any of these free products, and many others, will be subject to the imposition of fees in order to make up for the losses that will be incurred from the proposed change to the interchange structure. With the risk of fraud being considerably higher on larger debit purchases, we will have to consider differentiation between larger debit purchases and smaller ones. We will also be forced to consider making other changes on debit purchases, such as eliminating the guarantee on authorized debit transactions. CUSTOMER IMPACT The imposition of the aforementioned fees, and others,
will have a clearly harmful effect on bank customers, who will see a marked difference in the costs of maintaining their accounts. Customers will have to adjust their budgets to allow for higher banking costs and will likely consider reducing their use of bank products. As a bank, we will have to consider reducing the products and services we offer, making it more difficult to serve customers. Lower income customers, unable to bear the brunt of higher banking costs, will likely be forced out of the traditional banking system. Their only option for financial services will be unregulated entities such as check cashing companies and payday lenders. Although the aforementioned results of the new interchange regulation might not have been intended, it is impossible not to consider these consequences which are harmful to consumers. This hardly seems compatible with the consumer protection banner under which the Dodd-Frank legislation was passed. WINDFALL TO MERCHANTS Merchants'
voluntary participation in the debit interchange network has obviously provided them with markedly increased revenues and distinct advantages over competitors who do not accept debit cards. They are able to attract customers and process transactions quickly and efficiently with guaranteed payment once a purchase is approved, thus greatly reducing their risk since that risk is assumed by a bank. Their back office costs are lowered by not having to process checks. By accepting debit cards for online purchases, they provide another convenient and secure payment method. The interchange rates to which merchants have been subject have been fair and efficient. The Proposed Rule, however, will allow merchants, who already benefit greatly from the acceptance of debit cards, to receive a windfall not commensurate with the costs of debit transactions. There is absolutely no indication - nor any reason to believe - that any of the ncreased profits of merchants will be passed on to consumers.
Once again, the consumer is left to bear the weight of the ultimate effects of the change to interchange allocation. UNINTENDED RESULTS OF THE PROPOSED RULE Many of the consequences of the implementation of the Proposed Rule, such as the ones previously discussed here, are self-evident. A bank simply cannot incur such a drastic cut in revenue with hope of profitability without finding other revenue sources. Moreover, the impact to customers and the increased profits of merchants is not difficult to comprehend. Other less obvious effects on the banking system and the economy as a whole, however, must be considered. While increasing fees and implementing new ones is a way of allowing for lost revenues, they will only partially fill the gap. We will have to seriously consider other cost-cutting measures, including the closing of financial centers and job elimination, in order to move forward after the Proposed Rule takes effect. Other banks will no doubt be forced to consider these unpleasant measures as well. Obviously, branch closures will be disadvantageous to customers served. Job elimination, in the midst of an economic environment still reeling from a devastating recession will, of course, contribute to the uncertainty of any type of economic recovery. Furthermore, reduction in resources will be an impediment to our ability to increase products and services for customers. Another fact that must be

considered when taking into account the inevitable consequences of the change in the interchange structure will be the change in banking habits of customers. For the past two decades, electronic payment methods have increased dramatically and check writing has decreased. Federal Reserve check processing centers have consolidated because of the drastic reduction in the use of paper checks. The Proposed Rule will make the use of debit cards less attractive and desirable. With fees being implemented, many customers will likely go back to writing checks,

a system from which bank customers have been migrating away for years and which the banking system as a whole is less equipped to handle. This would be a huge step backward in a national and world economy that has been rapidly moving toward more and more electronic payments. CONCLUSION As stated, implementation of the Proposed Rule as drafted will have obvious detrimental consequences, both to banks and consumers, as well as ones less obvious and which are certainly unintended. As a longtime provider of banking products and services, we are greatly concerned that the adjustments that we and other banks will be forced to make to cover lost interchange revenue will have long-term effects that will make it more difficult for us to serve our customers, and will cost our customers more. We strongly urge the Federal Reserve, in consideration of the harmful consequences as described in this comment letter and many others, to revise the Proposed Rule. We urge the elimination of what amounts to government price fixing, and implementation of fee allocation that is fair to all while covering costs and allowing a reasonable profit -- without imposing burdensome costs and fees on consumers. Thank you for the opportunity to comment on this important matter. Please contact me should you have any questions or would like to discuss this matter further. Sincerely yours, David W. Miller EVP, Retail Banking First Tennessee Bank National Association