From: Community Bankers Association of Georgia, Steven D. Bridges

Subject: Reg I I - Debit card Interchange

Comments:

February 21, 2011

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

Subject: Regulation II, Debit Card Interchange Fees and Routing; Docket No. R-1404; RIN No. 7100 AD63

Dear Ms. Johnson:

The Community Bankers Association of Georgia is a trade organization supporting the state's community banks. We are writing you today on behalf of Georgia's community banks for the purpose of commenting on the Federal Reserve Bank's proposed rule, Regulation II, Debit Card Interchange Fees and Routing, issued for comment on December 16, 2010, with the objective to implement the controls and the network exclusivity and routing for consumer and business debit cards as required by the Durbin Amendment of the Dodd-Frank Act.

We want to be clear about our opposition to the Federal Reserve's proposal. The Federal Reserve's proposal would initially cap interchange at 12 cents per transaction, which could represent as high as an 80% reduction from the current rates. This rate level is insufficient to cover the costs of providing debit card services. We realize the Durbin amendment contained a provision exempting financial institutions with less than $10 billion in assets from the interchange fee cap rules. However, because of market forces and another provision within the Durbin Amendment, that exemption will be ineffective in the marketplace. Both the Dodd-Frank Act and the proposed rule contain provisions shifting control of transaction routing from the card issuer to the merchant. This negates any possible benefit from the exemption for smaller financial institutions because merchants, particularly the largest merchants, will use this transaction control with their market power to discourage the use of community bank cards in favor of the less-expensive price-controlled cards. Despite the establishment of two-tiered pricing structures by the networks, these market forces will compress the spreads between the current market-based rates and the price-controlled rates under the Federal Reserve Rule.

As a result, if this proposal is adopted, community banks will have no choice but to implement or raise fees of other types associated with customer checking accounts and debit cards or discontinue offering debit card services. According a recent survey conducted by the Independent Bankers Association of America, 93 percent of community bank respondents said they will have to charge their customers for services that are currently offered for free if this proposal is adopted. Additionally, 72 percent said they will have to implement charges for using debit cards and

61 percent said they will have to impose a checking account minimum balance requirement.

We recognize the Dodd-Frank Act requires the Federal Reserve to implement the price control provisions of the Durbin Amendment. However, we believe the Durbin Amendment provided the Federal Reserve with the flexibility to establish "standards for assessing" interchange rates instead of setting the specific fee limitations included in this proposal. We urge the Federal Reserve to delay issuing a final rule until they have an opportunity to extensively study the costs and benefits for all affected parties, including merchants and banks of all sizes, as well as consumers and small businesses and payment card networks. Of course, we believe it is of utmost importance for the small bank perspective to be incorporated into this study, since we strongly believe the regulation of debit card interchange fees and routing will affect banks of all sizes, not just those banks with assets greater than $10 billion.

We strongly advise against this, but if the Federal Reserve decides to proceed with the issuance of a final rule without further study, we cannot stress enough the importance of the Federal Reserve using the flexibility provided by the statute and adopting the approach of setting "standards for assessing" that interchange fees are "reasonable and proportional" rather than setting the explicit price caps in the proposed rule. We also want to make it clear that the allowable costs need to be broadened to include all costs associated with debit card programs. Plus, the rule needs to allow banks to earn a reasonable profit margin.

In summary and conclusion, we urge the Federal Reserve to delay the adoption of a final rule on interchange fees and routing in order to provide time for greater study of the issue and how all parties (including consumers) will be affected. Despite the statutory "carve out," we believe the proposed rule will impact banks of all sizes, including the community banks represented by our organization. If you do decide to proceed with adoption before further study, it is critical you use the statutory flexibility available to adopt "standards for assessing" interchange rates, rather than setting specific fee limits. Further, such standards should allow the use of all costs associated with debit card programs, plus allow for a reasonable profit.

We appreciate the opportunity to comment to the Federal Reserve on this proposal. We will be glad to assist further in any way possible. You may contact us at steve@cbaofga.com or by calling (770)789-5605.

Sincerely,

Steven D. Bridges
Community Bankers Association of Georgia