From: Adrian Tinsley

Subject: Reg I I - Debit card Interchange

Comments:

February 21, 2011

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

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule. As a Director of Bristol County Savings Bank, an institution in Taunton, MA and serving southeastern Massachusetts with just over $1 billion in total assets, I am writing to express my opposition to the proposed rule.

Our bank is strongly opposed to the proposed rule because we believe that this rule represents an unprecedented form of price controls between two industries that will have long-lasting unintended consequences for consumers and local banks. As a community banker, I want to be very clear that the exemption for banks under $10 billion in assets provides no protection to smaller institutions. Market forces will force our institution to adopt the same price level or risk losing market share to the largest institutions. The Fed's proposed cap on fees and the price differential between large and small institutions will provide merchants with strong incentives to steer customers to cards that are subject to the price controls in the regulations - driving customers away from smaller banks to larger ones. This will lead to artificially lower interchange rates for all institutions - not just those directly subject to the regulation.

I am extremely concerned that the Fed's proposed regulation will not permit banks to cover the cost of providing debit cards to our customers. Under the Fed's proposal, banks are only able to recover their incremental costs of authorizing, clearing, and settling debit card transactions, with a potential allowance for fraud prevention costs. This completely ignores funding costs, overdraft losses, fraud losses, billing and collection, customer service, data processing, protection of consumer data, compliance costs, card production costs, statement production and mailing, and worst of all reputation risk.

Here in Massachusetts, a number of large retailers, including BJ's Warehouse, TJX, and Hannaford Supermarkets, have lost customer payment information in data breaches. Many times these breaches are due to lax security standards and procedures at the retailer. Unfortunately, it is the bank, not the merchant, which makes consumers whole and absorbs the cost of issuing new cards, offsetting fraud losses, and providing customer service assistance to affected consumers. The Fed's proposed rule would not allow banks to recoup any of these costs through interchange revenues;

instead, banks may be forced to impose additional fees on their own customers to cover the costs of data breaches at merchants.

If Bristol County Savings Bank's debit interchange revenues were cut somewhere between 75-90%, as this proposal is likely to do, we would have to raise fees substantially, including,potentially, annual debit card fees. And/or, we would have to reduce our services. Obviously, we cannot retain our local customers if larger banks are significantly advantaged in comparison to us.

The Fed's proposal is also flawed in that it does not recognize the inherent differences between debit transactions and checks. For instance, in card-is-present transactions, merchants are guaranteed payment by the issuing bank and the issuer suffers the loss in the event there are no funds or a valid account. In contrast, checks may be returned and merchants suffer the loss. In addition, while retailers claim that checks cost little or nothing to process, why are more and more merchants discouraging the use of checks and encouraging the use of debit cards with point-of-sale terminals and self-service check out options?

Finally, we believe the Fed should adopt alternative A in implementing the routing requirement in the statute. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. The proposed alternative B would require banks like ours to manage multiple PIN network relationships, creating significant additional costs with little benefit to the bank or its customers. In addition, Alternative B would require re-issuance of cards in many cases, an unnecessary expense and an inconvenience to customers.

Retailers have benefited tremendously from the banking industry's investment in debit card networks and the payments system by embracing the widespread use of debit cards and by benefiting from the higher sales generated by the proliferation of cards. The Fed's proposed rule does not reflect the value of this investment, and sets artificially low interchange rates that will do nothing to improve the security of customer information by retailers while providing no guarantee that merchants will pass any savings along to consumers in the form of lower prices. For these reasons, my bank strongly opposes the Fed's proposal to cap interchange fees at 7 or 12 cents.

Thank you for the opportunity to comment on the proposed regulation.

Sincerely,

Adrian Tinsley