

From: Dennis Bower
Subject: Reg II - Debit card Interchange

Comments:

February 22, 2011

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

Dear Jennifer Johnson:

Yes, this is another letter trying to express another banker's opposition to the proposed changes in the Durbin provisions in the Dodd-Frank Act. However, I feel although my points are probably similar to many of the comments you've already heard, my 15 years of employment at MasterCard International and 24 years in Community Banking should provide more credibility to those concerns that have been raised by many of my banking peers.

First off, this ruling on interchange fees AND routing will affect all banks and not just those that are \$10 billion in size and greater. I currently work at a small community bank of approximately \$165 million in assets. According to the models we've looked at for our specific bank, the amount of income that we will lose on interchange, should the 12% cap be imposed, will cause our expenses to exceed our income on our debit card product.

This could be the nail in our coffin! We have not paid dividends to our stockholders over the last two years due to the downturn in the economy; we did not receive the bail out of the big banks; our bank has actually shrunk in size during this period (we were at \$175 million). We have worked hard to maintain our high CAMELS rating, but that unfortunately, doesn't mean we are best serving our community. We will be 'forced' to make moves that will increase charges, reduce staff (which we've tried to avoid the last couple of years) and other make other changes that will not only reduce community donations but in turn cause concern throughout our customer base. More customers are sure to leave and either join the ranks of the un-banked or switch to the big bank competitor in our location, U.S. Bank.

Please seriously reconsider your final ruling and insist on the legislators to repeal these provisions. It will cause a ripple effect that could eventually affect state and national budgets. Many small banks will be hurt by this and be forced to make the changes I've already indicated. They in turn will be cause more expense to their customers and less community donations. Customers will have less money to spend (a virtual tax, in other words will be imposed) and institutions like schools, community centers, public parks, etc, will need to find other sources of income (due to lack of donations for some of their projects). Schools could see layoffs, and state government could be asked for more funding (many of which are already in a deficit budget environment), causing more

demands on the Federal government to bail out the states.

The debit card program in the U.S. has been an efficient method of payment and allowed a big reduction in the Federal Reserve System due to the reduction of checks (or images) that has occurred, thus saving the Fed a huge amount of expense, witnessed by the closing of several Federal Reserve district check processing centers. Yes, a lot of this came from Image Capture technology, but much came from the Debit Card boom also. I'd like to say the better place to look for reduction of fees and charges is the credit card side of banking, however, that really cannot be done either, although they are much higher and costly to the consumers. The real culprit here is the fraud that is costing Americans directly and indirectly billions and billions of dollars! If the root cause of all the expenses are addressed, the fees passed down to the consumers will level off and possibly drop without any government intervention.

The technology is available and has been used successfully in Europe and other countries for many years. It's called CHIP Card and is exponentially more secure than the magnetic stripe on the back of the debit and credit cards. Unfortunately the merchants in the U.S. would rather lobby their congressmen for laws to lower their interchange fees instead of investing in the equipment to accept these cards. The banks, networks and card providers are not the bad guys here. They are doing what they need to do in order to make an obsolete system work. If the merchants want a cheaper, safer way to do business, then they need to step up. Many Americans cannot even use their cards overseas, because many of the world's merchants have already adopted the use of chip cards only. The networks, the card processors and many of the issuing banks are already using this technology. It's the large national merchants that haven't adapted, and are now using their bullying tactics against the banks, just like they've done against the small merchants to gain market share.

I respectfully request you dig deeper into this and work on the root cause instead of just placing a temporary bandage on it. If not, more problems will arise and you'll be looking into it again in the near future.

Sincerely,

Dennis Bower