



February 21, 2011

VIA ELECTRONIC DELIVERY

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

Re: Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

On behalf of the nearly 600 commercial banks and thrifts that are members of the Texas Bankers Association (TBA), thank you for the opportunity to comment on the Federal Reserve Board's (the Board) proposal regarding debit interchange fees and routing. We appreciate the time and effort the Board has invested in promulgating this proposed rule; however, we respectfully request the Board abandon this proposal.

The addition of Section 920 to the Electronic Fund Transfer Act (the Durbin Amendment) directed the Board to prescribe regulations setting debit interchange fees that are "reasonable and proportional" to the cost of the transaction. Leaving aside our strong underlying opposition to the Durbin Amendment's involvement of government in the setting of contract prices between two private entities, the Texas Bankers Association has serious concerns about the fact that the proposed rule takes a very narrow view of "reasonable and proportional."

In promulgating its two alternatives for computing "reasonable and proportional" fees, the Board failed to take into account the full costs of operating the debit card system. In its current form, the proposed rule does not take into consideration, either at the .07 cents or .12 cents per transaction level, the cost of inquiries and disputes, fraud losses and fraud prevention costs, fixed costs, or, heaven forbid, a reasonable profit.

The debit card system is a system in which both banks *and* merchants choose to participate. And, both sides bear system participation costs. Merchants pay interchange fees in exchange for access to a payments system that is more efficient and cost effective than cash or checks. In addition to the costs mentioned above, banks also pay fees to the networks to process transactions. Yet the Board, in promulgating this proposed rule, is shifting almost the entire burden of network participation costs onto the banks, presumably in the name of consumer protection.

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It is very troubling to Texas bankers that the rule is silent on what should become of the interchange savings realized. If this is a consumer protection measure, the proposed rule should make clear that consumers, not merchants, will be the ultimate beneficiaries of its adoption. Even Chairman Bernanke acknowledged last week there is no guarantee customers will ever see the benefits. Should the Board choose to pursue this ill-advised rule, we urge you to include language requiring merchants to pass these savings on to consumers.

Thank you in advance for your time. I welcome any comments or questions you may have on the above.

Sincerely,



Celeste Embrey
Assistant General Counsel