From: The Canandaigua National Bank and Trust Company, Vicki B. Mandrino

Subject: Reg I I - Debit card Interchange

Comments:

February 23, 2011

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

Dear Jennifer Johnson:

I am writing on behalf of The Canandaigua National Bank and Trust Company (CNB) regarding the Durbin Interchange Amendment, one of the provisions of the Dodd-Frank Wall Street Reform Act that charged the Federal Reserve with regulating (limiting) the fees charged on debit card transactions. The Federal Reserve was tasked to limit the interchange charge to only the variable expense to deliver the base service. What clearly was overlooked, however, was consideration of other "costs or returns" such as: consideration for the return on capital, fraud loss and prevention, market or actual value of services, and enhanced protections inherent in new technology.

By a recent triennial study from 2006-2009,debit card usage is shown to be growing at 14.8% each year and constituted 35% of the total payment transactions for 2010, now eclipsing credit cards at 20% and checks at 22%. This is because the debit card payment method improves immeasurably for vendors and consumers the convenience, limitation of fraud, assurance of final payment for most transactions, and significant efficiencies of electronic payments. The Durbin Amendment will limit such charges (revenues) to a cap of 12¢ for each transaction. This was at the request of the big-box retailers who were successful in getting one well placed member of the Senate (Durbin) to submit the amendment which was ultimately included in the legislation without consideration of the consequences. This sort of price fixing of the wage and price control has previously been found to be bad economics and not to be effective in any way.

Banks such as ours, with assets under $10 billion, are exempt from the cap restriction by statutory provision. Yet it remains to be seen how the markets might apply these price controls to the largest issuers of debit cards (which constitute the dominant players) at 12¢ without affecting (reducing) the volume of business of the aggregate of community bank issuers at the current market determined higher price of 25¢ without shifting all the business to larger issuers' cards. The limiting cap placed upon the predominant issuers' transactions will effectively frustrate the will of Congress by voiding the statutory exemption intended to benefit community banks. Ultimately, market forces will discriminate against debit cards issued by community banks such as CNB by the effect of the cap on fees chargeable by the major players in the market.

The free and highly competitive market up until now allows CNB about 25¢ per transaction, which is a reflection of the value of the product and service and its growing popularity. Consequently, by this intrusion of legislation into the market process, we at CNB potentially suffer a curtailment of 52% of debit card interchange revenue, more than half, which is thus turned into a subsidy to the "big-box merchants" at our expense of $1,500,000 per year-revenues which are no longer reinvested in retained earnings and capital to fuel the growth of the economy as well as meeting the challenges of increased provisions for loan losses and attending to resources necessary to subsidize consequences of failed institutions in the down economy. This amounts to a handout from CNB to big-box merchants. This is a clear distortion of fair market pricing and a great corruption of political debate which is not in the best interest of the greater good, but only for the narrow interest of a small group of individual large retail participants.

We ask that you immediately assist to prevent the implementation of the Federal Reserve's interchange rule. Retailers have successfully lobbied for the government to interfere in the private market and cap interchange fees; the ultimate result will not be lower prices for consumers as retailers have promised. If the Durbin Amendment is not stopped, it will result in higher costs to consumers as banks are forced to charge new and higher fees on debit cards in order to make up for the resources lost from interchange price controls.

The cap on interchange fees ultimately will cause a shift of costs from retailers to consumers, something The Canandaigua National Bank and Trust Company opposes as bad public policy and bad for the economy. Thank you for your immediate attention to our concerns.

Sincerely,

Vicki B. Mandrino
The Canandaigua National Bank and Trust Company