



First Midwest Bancorp, Inc.
One Pierce Place, Suite 1500
Itasca, Illinois 60143
(630) 875-7450

February 21, 2011

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

Re: R- 1404 - Proposed Rule on Debit Card Interchange Fees and Routing; comments from First Midwest Bancorp, Inc. ("First Midwest")

Dear Ms. Johnson:

The Federal Reserve Board ("Board") has requested comment on a proposed rule that would establish debit card interchange fee standards and prohibit network exclusivity arrangements and routing restrictions. This letter is to express First Midwest's strong support of the comments and recommendations submitted by the *Illinois Bankers Association* ("IBA") on February 16, 2011 with respect to this proposal as we believe the proposal sets price controls on the extensive and true costs associated with this optional access payment service, which has become the payment method of choice for many consumers.

As a full service community bank, First Midwest offers debit cards on all checking and transactional accounts for retail and small business customers, many of which are free. Like so many other community banks we help facilitate a payment system that has become the backbone of consumer retail spending for customers of all income levels. The Board's own statistics show that debit cards are now used in 35 percent of non-cash payment transactions, and have eclipsed checks as the most frequently used non-cash payment method.

This system, which was created solely by members of the heavily regulated financial industry, provides consumers an extremely convenient and safe way to purchase goods and services. Through the increasing use of debit cards, these institutions generate substantial business for merchants of all sizes and contribute to the country's economy, both nationally and at the all-important local level.

As a community bank it is our mission to provide financial services that assist our banking clients (individuals, non-profits and businesses), and First Midwest is proud to work with and be a partner to our clients as they strive for financial independence. First Midwest has approximately \$8 billion in assets and nearly 2,000 employees and it operates 100 offices in communities both large and small in the states of Illinois (our headquarter state), Indiana and Iowa.

We have serious concerns about the Board's proposal and the unintended consequences that likely will result upon its implementation, many of which are negative for our clients, the consuming public, the communities in which banks operate and the safety of the institutions that make up the U.S. financial system.

We support the comments made by the IBA, however we would like to emphasize the inequitable impact of placing price controls on interchange fees as stated in the proposal. As currently drafted, the proposal does not account for all of the true costs associated with the provision of debit card services, and in particular, it excludes recovery of the significant costs related to fraud. If implemented, the cost cap

significantly and meaningfully will impair the ability of any bank to cover its costs for delivery of this important service to customers.

Banks are just like any other business, they must cover overhead expenses to remain profitable. If banks are not able to recover the true cost associated with providing debit card services many of them will be forced to look to other ways to cover this significant expense, some of which likely will be consumer related, such as new fees or the elimination of current service programs. All banks depend upon having sufficient funds to allow them to offer affordable services. If those funds are impaired, so too could be the ability of banks to offer affordable products such as free checking.

This cause-and-effect could be of particular concern to those consumers who are unable to pay account and service fees for basic bank products for the caretaking of their funds, or payment of their bills.¹ As a result, this vulnerable segment of consumers may be forced to use financial service providers that are not as regulated or safe as the highly regulated banking industry. Accordingly, the income reduction to all banks will impact in a very meaningful way any bank's ability to provide increasingly important financial support to the many social service organizations that deliver services locally, and that are vital to those individuals who are in desperate need of housing and healthcare related services every day.

First Midwest's approach to banking has always been centered on the belief that we should meet the basic financial needs of the people in the communities we serve. Our clients need a strong reliable debit card interchange network. Our employees need a strong and sound employer. Accordingly, if the proposal passes in its current form, we are very concerned about its inevitable effect on banks' ability to cover the expense associated with providing this essential service to clients and its impact on our industry.

Again, we support the IBA's recommendations. At a minimum we suggest the Board take more time to explore the true costs associated with the provision of this important service and the potential impact of its implementation on financial institutions and the consumers they serve.

We appreciate the opportunity to participate in this rulemaking process and we thank you for consideration of our comments and recommendations.

Sincerely,



Michael L. Scudder
President and Chief Executive Officer

¹ We join the *American Bankers Association's* comment that the idea that there should be no interchange fees for accepting debit cards because there is no comparable fee for accepting checks is misguided due the differences between the payment methods. Retailers pay for the costs of checks processing, and checks may be returned for insufficient funds, leaving the retailer to suffer the loss.