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VIA E-MAIL

Ms. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Comment on Proposed Rulemaking Regarding Debit Card Interchange Fees and Routing; Docket No. R–1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

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

Our firm is regulatory counsel to 28 community banks based in North Carolina.

The Board of Governors' proposed rulemaking will likely have adverse unintended consequences, especially on smaller financial institutions. The cap on interchange fees is one part of this rulemaking that is of great concern. Regardless which of the alternatives in proposed Section 235.3(b) is adopted, market pressure will likely render meaningless the exemption for financial institutions with less than ten billion dollars in assets. If larger institutions have significantly lower interchange fees, smaller "exempt" issuers will be compelled to also lower their fees in order to compete. Because the exemption for smaller issuers is largely illusory, attempts to determine their certification process in accordance with proposed Section 235.5(a) will likely prove ineffective.

It is unclear whether the proposed alternatives provide a sufficient fee to cover the costs associated with the interchange system. By only sending "card issuer surveys" to 131 of the larger financial institutions, the results of the survey do not reflect the actual costs of the interchange system or the impact that the 12-cent per transaction cap will have upon smaller issuers. The two alternatives appear to fail the Board's own criteria for determining whether an interchange fee is reasonable because the Board has not actually considered "whether the fee is fair or proper in relation to both the individual issuer's costs as well as the costs incurred by

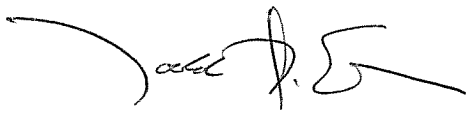
other issuers." 75 Fed. Reg. 81733. For this reason, the cap is not "reasonable" and thus is also not "proportional," contrary to the legislation's requirements.

Financial institutions will be compelled to recoup the costs associated with the interchange system by charging fees for other services. Ultimately, the cost of the fundamental changes caused by the proposed rulemaking will be borne by consumers in one way or another, if financial institutions are in fact able to adjust their fees for other services. In the meantime, the low cap in the proposed rulemaking's two alternatives puts great pressure on financial institutions, especially the smaller issuers—pressure that the beset financial services system can ill-afford.

It is unclear why Congress considered a cap on interchange fees necessary. The dramatic growth of debit card usage and the continued development of the related system is a strong indication that it works well without the imposition of price controls. However, at the very least, the Board of Governor's rulemaking should be deferred until the true impact of Section 1075 can be more accurately determined. When the actual costs of implementing a cap on debit card interchange fees are better known, it is our hope that the Board of Governors' rulemaking will more accurately reflect the difficulties that the financial services system now faces.

Very Truly Yours,

GAETA & EVESON, P.A.



Todd H. Eveson

cc: Mr. Thad Woodard, North Carolina Bankers Association