



**THE PRIVATE BANK**

LARRY D. RICHMAN  
PRESIDENT & CEO

February 22, 2011

Jennifer J. Johnson,  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Re: Proposed Rule on Debit Card Interchange Fees, Docket No. R-1404

Dear Ms. Johnson:

I am submitting this comment letter on behalf of The PrivateBank and Trust Company ("PrivateBank") in response to the proposed rule, Regulation II, Debit Card Interchange Fees and Routing ("Proposed Rule") issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") to implement the debit card fee interchange provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").<sup>1</sup>

PrivateBank is a Chicago based financial institution delivering customized business and personal financial services to middle-market companies, as well as business owners, executives, entrepreneurs and families in all of the markets and communities we serve. It is an Illinois state chartered non-member bank. PrivateBank has \$12.6 billion in assets and 34 offices in 10 states.

PrivateBank is a member of the Midsize Bank Coalition and the Financial Services Roundtable and strongly supports the comment letter on the Proposed Rule submitted by these groups together with a wide coalition of financial institutions trade organizations ("Coalition Comment Letter"). The Coalition Comment Letter contains a thorough analysis of the concerns and objections of a wide spectrum of financial institutions to the provisions of the Proposed Rule, so we will not restate those arguments in this letter. Instead, we are submitting this separate comment letter to reiterate our support for the positions stated in the Coalition Comment Letter and provide more specific information about the potential negative impact of the Proposed Rule upon PrivateBank and other financial institutions.

---

<sup>1</sup> Debit Card Interchange Fees and Routing, 75 Fed. Reg. 81,722 (Dec. 28, 2010)



The Proposed Rule sets forth two alternative standards for determining whether an interchange transaction fee for electronic debit card transactions is reasonable and proportional to the cost incurred by an issuer in connection with the transaction. Alternative 1 establishes issuer specific standards for determining allowable costs, a cap of 12 cents per transaction, and a safe harbor of 7 cents per transaction. An issuer could receive or charge interchange transactions fees up to the amount of its allowable costs, not to exceed a cap of 12 cents per transaction. Allowable costs are limited to an issuer's authorization, clearing, and settlement costs ("Allowable Costs"). Under the safe harbor provision, an issuer could charge or receive a fee of up to 7 cents per transaction without having to determine its actual transaction costs. Alternative 2 sets a fee cap of 12 cents per transaction for all issuers.

While its asset size places the PrivateBank outside of the exemption for small issuers with assets of less than \$10 billion, PrivateBank is an issuer of approximately 20,000 actively used debit cards tied to accounts totaling less than one billion dollars in assets, which is more in line with the debit card activity of a small issuer.

PrivateBank estimates that its costs in connection with its debit card program are as follows:

Approximate Allowable costs (authorization, clearance and settlement) under the Proposed Rule:

PIN Based Transactions:	20.1 cents per interchange transaction
Signature Based Transactions	25.03 cents per interchange transaction

PrivateBank also incurs additional fraud prevention costs of approximately 10.9 cents per transaction for PIN Based transactions and 8.9 cents per transaction for Signature Based transactions, which we think should be included in determining whether an interchange transaction fee is reasonable and proportional to the cost incurred by an issuer. We also agree with the position stated in the Coalition Comment Letter that other costs such as funding, credit losses, fraud losses, customer service, and card replacement should be considered in determining whether an interchange transaction fee for electronic debit card transactions is reasonable and proportional to the cost incurred by an issuer.

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
Page 3  
February 22, 2011



The interchange fee cap of 12 cents per transactions (and 7 cents safe harbor) under the Proposed Rule are significantly less than amount of the cost to PrivateBank for processing these transactions, rendering our debit card operations a money losing business. (While this is true if only Allowable Costs under the Proposed Rule are considered, PrivateBank's actual loss per debit card transaction is even greater if the additional costs that it incurs in connection with these transactions, such as fraud prevention, are considered.)

As the stated in the Overview of the Debit Card Industry section in the Supplementary Information in the Proposed Rule, debit card transactions constitute approximately half of all third-party debits to deposit accounts. Debit cards have become an integral part of the banking products and services sought by bank customers. However, if the interchange fee cap in the Proposed Rule is implemented, PrivateBank will not only lose potential revenue on its debit card business but incur a loss of at least 8 cents on each debit card transaction. As suggested in the Coalition Comment Letter, PrivateBank, as well as other banks, will be forced to reconsider its debit card program, which is contrary to the interest of our customers, and look at other means of recovering its costs, such as potentially eliminating free checking accounts. We request that the Federal Reserve revise the Proposed Rule to eliminate the cap on interchange fees. We concur with the recommendation in the Coalition Comment Letter that the Federal Reserve revise the Proposed Rule to establish standards for interchange fees that are reasonable and proportional to an each issuer's allowable cost, include the additional costs that issuers incur with respect to these transactions, and establish a safe harbor amount for these fees.

When PrivateBank was founded, its primary focus was on middle market businesses and high net worth customers. Today, as its business has expanded, PrivateBank is seeking to meet the banking needs of a broader range of customers in the communities in which it is located by offering a wider variety of consumer banking products and services. Banks, such as PrivateBank, should not be placed at a competitive disadvantage in offering widely sought consumer products such as debit cards because regulations prohibit them from recovering their costs and a reasonable return on these services. The Proposed Rule, as written, would result in this negative impact on banks and would be detrimental to consumers.

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System



Page 4  
February 22, 2011

PrivateBank appreciates this opportunity to comment on the Proposed Rule and address the potential impact it will have on our bank, the financial services industry, and consumers. We would be happy to answer any questions that you may have or provide additional information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Larry D. Richman", with a large, stylized flourish at the end.

Larry D. Richman  
President and CEO

LDR:jre