



Jerry Schaffner  
President and CEO

February 14, 2011

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

**Re: Debit Card Interchange Fees and Routing**

Dear Ms. Johnson:

I appreciate the opportunity to submit this letter of comment in opposition to the Federal Reserve's proposed rule to implement Senator Richard Durbin's interchange amendment (the "Proposed Rule"). The Durbin amendment, passed as part of the Dodd-Frank Act, directs the Federal Reserve to set price controls on debit card interchange transactions.

As CEO of PlainsCapital Bank, I am deeply concerned about the dire impact that the Proposed Rule would have on PlainsCapital Bank and its 70,000 customers located throughout all of the major Texas markets, including Austin, Dallas, Fort Worth, Lubbock and San Antonio. Following a thorough review of the Proposed Rule, I believe that (a) the cost savings to be recognized by merchants as a result of the Proposed Rule will not be seen or felt by consumers, (b) the Proposed Rule will directly impact PlainsCapital Bank despite PlainsCapital Bank's qualification for exemption due to its current total asset base of less than \$10 billion, and (c) the Proposed Rule will negatively impact each consumer engaging in debit card transactions.

**A. Benefit Limited to Retail Merchants**

The Proposed Rule unfairly benefits merchants who are relieved of virtually any monetary responsibility for the very payment system that so greatly benefits their businesses. Prior to debit cards, merchants routinely accepted checks for point of sale transactions. The check system was slow, tedious and often resulted in additional monetary exposure to merchants when a check was fraudulently indorsed or was drawn on insufficient funds. Conversely, a debit card transaction guarantees the merchant instantaneous payment from the issuing bank, increases the frequency of point of sale transactions and all but eliminates any risk to the merchant that it will not be paid. Why should merchants continue to reap all of the benefits of debit card transactions without shouldering any of the financial responsibility imposed by the Proposed Rule? It is highly unlikely that merchants will pass any savings from reduced interchange fees along to consumers. The result is that banks will unfairly shoulder all of the financial responsibility from the Proposed Rule.

Please understand that PlainsCapital Bank is a community bank with significant relationships with small to mid-sized businesses, many of whom are merchants who primarily serve consumers. We understand the challenges that many of these customers face in maintaining and increasing revenues in a recovering market. However, the Proposed Rule is not the answer to those problems.

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## **B. Direct Impact on Community Banks**

It is fundamentally impossible to protect banks with less than \$10 billion in assets from the effects of the price cap on interchange fees contained within the Proposed Rule. Although the Proposed Rule attempts to exempt institutions like PlainsCapital Bank from the price fixing elements, economic forces will necessitate that PlainsCapital Bank adopt the same price cap. The marketplace will gravitate toward the lowest cost solution, and smaller, exempt institutions will be forced to follow suit. Any price differential between cards will understandably give merchants strong incentive to steer their customers to larger institutions, thus forcing all institutions, regardless of size, to adhere to the artificial price cap.

## **C. Unintended Consequences**

Ironically, the party to suffer the greatest injury by adoption of the Proposed Rule is most likely the consumer. The Proposed Rule gives no consideration to the overall costs of maintaining or improving payment systems, the costs that banks bear to provide debit services, and the costs of fraud and fraud prevention. In fact, the Proposed Rule reduces interchange to a point that PlainsCapital Bank would likely recognize a 67 to 77 percent reduction in its interchange revenue. If the Proposed Rule is adopted, we anticipate that PlainsCapital Bank's debit card revenue would no longer be able to cover the direct operational and fraud expenses associated with offering convenient debit cards to its customers.

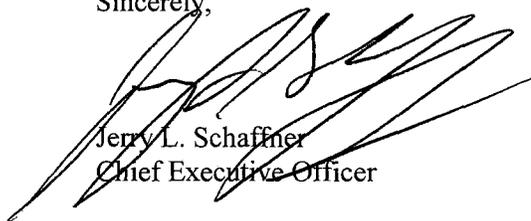
As a result of the expense to continue supporting a debit card program following adoption of the Proposed Rule, PlainsCapital Bank and other community banks will be forced to make very difficult choices, which may include (i) not issuing debit cards, (ii) instituting an annual fee, a monthly maintenance fee or other fee(s) associated with debit cards and/or checking accounts, and (iii) limiting other valuable services that our customers have come to expect from PlainsCapital Bank. Since the customer is highly unlikely to reap any of the cost reduction received by merchants, it is undoubtedly the consumer that will suffer greatly as a result of adoption of the Proposed Rule.

## **Conclusion**

PlainsCapital Bank respectfully and strongly requests that the Proposed Rule be abandoned in its entirety and never adopted. The cost savings recognized by merchants will provide little to no benefit to consumers. The effects of the artificial price cap on interchange will impact PlainsCapital Bank and other similarly situated community banks, despite the exemption for institutions with less than \$10 billion in total assets. Ultimately, the Proposed Rule will negatively impact the very people that we, as a nation, ought to be helping during this period of recovery: the consumers.

Thank you for this opportunity to comment on the Proposed Rule. If you have any questions or need any additional information, please contact me by telephone at (214) 252-4134 or by email at [jschaffner@plainscapital.com](mailto:jschaffner@plainscapital.com).

Sincerely,



Jerry L. Schaffner  
Chief Executive Officer