

# WOOD & HUSTON BANK

AREA CODE 660 / 886-6825  
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February 7, 2011

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

RE: Docket No. R-1404 and RIN No. 7100 AD63

Gentlemen:

When I started my banking career in February 1949, no one had ever heard of debit cards. Merchants were paid with cash or checks. At that time, most bank customers did not even have personalized checks. Instead, they normally used "counter" checks which younger people and bankers today have never heard of. Merchants kept a supply of counter checks from the surrounding banks for their customer's use. Most stores accepted "local" checks only, and if a person was away from home, he would have to carry cash and/or traveler's checks.

At those times merchants had all the costs and problems of doing business with cash, had substantial losses from bad checks and lost business because they were reluctant to take checks from people that they did not know. Until very recently, banks had a delay of several days before checks turned into collected funds.

Then, the banking and technology people developed the present-day debit card program. The development of this program is really almost unbelievable. The effort, imagination, resources, and money that went into this development was tremendous. Years ago, who would believe that a person could take a little piece of plastic and go all over the world and pay for about anything they wanted with very few questions asked?

When debit cards first came into being, no retailer was required to accept them, yet they rushed to do so. They recognized the great benefit to their business. I am sure that the bad check costs and losses experienced by retailers were greatly reduced because of their debit card sales. On the other hand, in 2010, our little bank had over \$90,000 in debit card fraud loss. None of this was due to anything we had done wrong – the losses came from other companies' failure to protect the identity of debit card holders. Most of these were due to the Heartland Payment Systems situation (the company that processes debit card transactions for many of the large retailers).

Wal-Mart is a great company. Everyone recognizes that they are a real success story. They have been so successful that most of their small local competitors went out of business years ago. Many of their suppliers were forced to move to China or went out of business. Many of their employees are on Medicaid and receive food stamps. I doubt that there is any company in the world that makes a many debit card sales as they do.

I would bet that consumers will not see price drops at Wal-Mart from the subsidy they will be getting from the banks. What we see is Wal-Mart driving prepaid cards and financial services. Wal-Mart has effectively gotten the government to force banks to drop free checking and other services through this revenue grab. The customers that can least afford it are now forced to Wal-Mart and Payday loan services. Why would the government do this?

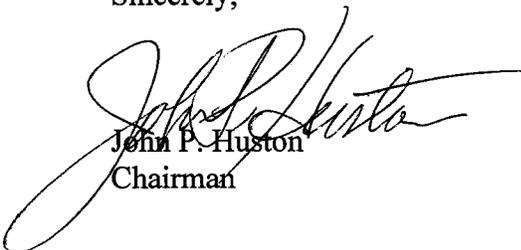
I know that a least one of the large convenience stores has had a program asking customers to sign a petition asking Congress to regulate interchange rates, but I do not think that consumers on their own have had a problem with, or even know what an interchange rate is.

Many large retailers have their own credit cards and I understand that one of them has, or soon will have an ownership interest in a company that issues prepaid cards. It is my understanding that the interchange rates on **these** cards will be *excluded* from the new regulations. For Congress to require the Fed to set rates regulating debit card interchange rates at an amount that will not cover all of the costs involved, much less make any profit, does not appear to be the old American way. All goods and services should be priced by competition – not by laws passed because of the economic and political power of any group.

Interchange rates of \$0.07 and \$0.12 are a small fraction of the total cost of debit card programs. Rates like this will be very damaging to the community banks of this country.

Please reconsider these \$0.07 and \$0.12 rates and set the rates at a figure that will at least cover all costs, even if they do not produce a profit. Or, better yet, get out of government price fixing and let the market place work.

Sincerely,



John P. Huston  
Chairman

JPH:mhb