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WILLIAM S. AICHELE
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

February 3, 2011

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

Docket No. R1404 RIN No. 7100AD63

Ms. Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed rule on "Interchange Fees Caps" which grew out of the misguided and harmful Durbin Amendment.

Our bank is harmed in a very significant, negative financial way by the implementation of the "Interchange Fee Rule". We voice our strongest, most vociferous opposition to this unnecessary and unwarranted attack on free market earnings. Community bank investors who are dependent on our earnings for dividend payments will see their dividend payouts impaired. Low and moderate-income customers will find it more difficult to maintain a checking account due to new minimum balance requirements and may fall into the ranks of the non-banked. Lastly, our 580 employees may have their earning capacity limited as our profitability is challenged.

As the Chairman of Univest National Bank, a community bank, with $2.2B in assets just 20 miles north of Philadelphia, PA, I am writing to express our opposition to the proposed rule.

The financial impact of the Interchange Fee Caps is devastating to our organization. At a time of great economic and industry stress, this legislative mandate will force Univest National Bank to forgo about 7% of net income. On the expense side of the ledger, we're only able to cover about 90% of variable transaction costs (customer debit card usage). Additionally, the legislative fee cap requires us to swallow as a loss, 100% of our fixed overhead and administrative costs associated with the debit card product. This misplaced intrusion into free market economics produces an unsustainable economic model for the banking industry.

Not to be lost in the overall noise and turmoil about interchange fees, is that our Bank will lose another 4.5% of pre-tax profits related to the changes in the Reg. 'E' overdraft legislation.

In essence, 'Financial Reform' has become a major financial calamity for the small and mid-size banks in our country. Who, 'oh-by-the-way', had nothing to do with the financial

14 NORTH MAIN STREET P.O. BOX 64197 SOUDERTON, PA 18964-0197
P 215.721.2457 F 215.721.2408 AICHELEB@UNIVEST.NET WWW.UNIVEST.NET

meltdown of neither the mortgage business nor the economy in general. How does giving back 15% of net income by the stroke of a pen make the financial services industry stronger? Although the statute attempts to exempt smaller institutions from the price control elements of this rule, the absolute truth of the matter is that money and financial services are commodities. Therefore, small institutions are price takers in the market place and will be forced to adopt the same price level as our largest competitors. In essence, all banks will be subject to the same regulatory cap on interchange fees.

At the barest minimum, the Board should include in the calculation of the fee: network fees; the cost of inquiries, disputes; fraud losses, fraud prevention costs; fixed costs, including capital investments; and a reasonable economic profit. A fee that does not take these factors into account is not a "reasonable fee" as defined by this very statute.

In calculating the permissible interchange fee, the proposal does not recognize important differences between debit cards and checks. In transactions where the debit card is present, merchants are guaranteed payment; while the debit card issuer suffers the loss in the event there are no funds in the account. In contrast, checks may be returned for insufficient funds and the banks won't suffer a loss. The winner in the game of Interchange Fee Caps is the large box stores, not the consumers, not the banks. It should be noted, the big box stores were fighting this battle many years before the financial meltdown and advanced their cause on the premise of improved profitability not consumer protection.

The Board should adopt alternative A in implementing the routing requirement. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants.

For the reasons stated above, we are opposed to capping interchange fees at 7 or 12 cents as proposed in the Durbin Amendment. It will have a significant negative impact on the overall profitability of our bank, resulting in a negative impact on our employees, shareholders, customers, and the communities we serve.

Sincerely,

William S. Aichele

William S. Aichele
Chairman, President & CEO

cc: The Honorable Senator Robert P. Casey, Jr.
The Honorable Congressman Michael Fitzpatrick