Litchfield Bancorp 1850

Mark E. Macomber
President & CEO

February 14, 2011

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

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

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

I write as President and CEO of Litchfield Bancorp, a state-chartered affiliate of a three-bank, Fed supervised mutual holding company in northwest Connecticut. My bank has $215 million in total assets and our holding company about $700 million. I am writing to express my strong opposition to the proposed rule. Our holding company employs roughly 170 employees and serves its customers through 14 branch offices. The three banks, including Litchfield Bancorp, are full-service, consumer oriented banks with deep ties to our communities dating back to the mid-1800's.

My concerns with the proposed rule include:

> Perhaps most baffling is that the Dodd-Frank legislation fails to acknowledge the most significant cost generators in providing debit cards to our customers - issuing the cards, costs attendant to maintaining requisite systems, absorbing fraud losses and maintaining attendant loss prevention programs, and, of course, paying the folks who work in our operations area. I'd also think a modest profit margin to keep the bank going might be a reasonable consideration. The legislation fails utterly when assessed against any cost allocation model. There's a bit more to the cost of a donut than the sugar on top. The fee proposal doesn't approach "reasonable" as mandated by the statute.

> Although the statute attempts to exempt smaller institutions like mine from its price control elements, in the real world economic forces will undoubtedly force our institution to adopt the same price level as larger competitors or risk losing market share to the largest institutions.

> In calculating the permissible interchange fee, the proposal does not recognize important differences between debit cards and checks. Importantly this includes the fact that in transactions where the card is present, merchants are guaranteed payment and the issuer, i.e., my bank, suffers the loss in the event there are no funds or a valid account. In contrast, checks may be returned unpayable and merchants suffer the loss.

> As has been demonstrated time after time government price controls do not work and invariably lead to inefficiencies in the payment system and constitute a disincentive to improving it.

> I have nothing against retailers, large or small. Today they enjoy life as the primary beneficiaries of an efficient, guaranteed payment system and now they simply don't want to contribute to its maintenance. Current fees have been established over time based on real costs and market demands, rather than a statutorily mandated, unrealistically limited partial view.

> It is highly unlikely that consumers will benefit in any material way from implementation of the rule. Instead retailers will enjoy higher profits at the expense of the banks that make it all possible. Consumers will pay, and in many situations are already paying, higher bank fees in other areas to make up for lost interchange revenues.

For the reasons stated above we are unalterably opposed to capping interchange fees at 7 or 12 cents or, really, price controls at all. It will have a significant impact on our bank, our customers and our operations.

Sincerely,

Mark E. Macomber
860-567-9401
President & CEO
Litchfield Bancorp