February 17, 2011

Ms. Jennifer J. Johnson
Secretary
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

Board of Governors of the Federal Reserve System,

I wish to thank you for giving me an opportunity to comment on the interchange issue. I have a dual perspective on this issue; one, I am a consumer of banking services and products, and two, I am a banker with over four decades of experience in the banking business. The fact that I use banking products on the one hand and supply these products on the other, allows me to understand the benefit of the debit card and also the value of the debit card from a banker's viewpoint. I have to say without question, the debit card is the best thing that has happened to banking since the original checking account was created. As someone who uses the debit card, it is a really special banking product. I can access my money 24/7/365 anywhere in the world, anytime of the day. It is an effortless, convenient process that has brought my bank account to me anywhere I am. I no longer have to worry about all those horrible experiences of trying to cash a check or buy a product with a check especially as I travel around the world. Have you ever tried to cash a check in the Czech Republic? Guess what the debit card costs me at my bank – zero, nada, not a penny. My bank provides this card, as well as one for my wife free of cost. This is a product/service that has grown and improved continuously over the last several years. I am not even responsible for the fraud attempts that have occurred on my card. It is really too good to be true, but in this case, it is true.

Now putting my banker's hat on, I have to say as a banker that is affiliated with VISA, they have done an outstanding job of supporting our efforts to provide a card we are truly proud to provide our customers. Support is fantastic, reach is beyond anyone's imagination, and it is available in millions of businesses large and small all over the world. You can even do business in foreign currencies and get a really good foreign exchange deal. I cannot believe that this has really happened in banking.

If someone would have predicted that we could provide such a fabulous product for our customers 10 or 15 years ago, virtually no one would have believed that what is available today, would ever be available and certainly no one would have envisioned that it would be offered free by nearly all financial institutions. You say, it is not free, that it's a banker's game. The consumer is paying for this service through the transfer of these costs to him/her through the pricing being set by the merchants and service providers. This is all true because all costs have got to be covered, but I would argue that this cost is being absorbed by the merchants because millions of them see the value in new sales opportunities because the consumer of today walks into his store and is prepared to pay and pay effortlessly whether the business is small or large. The merchant has virtually no downside risk and very little processing expense as compared to handling cash and checks and all the legacy costs associated with that old timer's process.

The sad reality, many of the decision-makers in the retail business today do not even have a clue of how difficult it was to run the big treasury function that most retailers had to operate to handle all the cash and checks that they received each day. The check was the first big move away from cash, but the merchant accepted huge risks with the check plus enormous handling expenses. Remember (maybe you are to young too know) the days when you stopped by your local convenience store and saw your neighbor's check hanging on the wall marked NSF? Those days seem like a lifetime ago when in fact, that experience existed just six or seven years ago.

So why am I walking through all this history? I will tell you plainly and simply - if something is not broken, do not fix it. This system works as fairly and as efficiently as almost anything I can point to in the banking space. On top of its efficiency, it is loved by consumers to the point that it is rapidly overtaking all other forms of payment - our customers say it is a necessity. If the FED is setting the interchange rates, and sets those rates below the costs of delivering the product, it will kill the product or it will force the banks to turn to the consumer, their customer, and pass on those costs to them directly through a transaction fee for each swipe or a card fee charged monthly or annually. The retail banking platform that most banks operate does not cover the costs of delivering the products and services – yes, retail banking loses money.

Most banks only recover 40 to 60 percent of these costs, which include many things that make-up retail banking – branches, banking personnel, systems (banks subsidize retail banking) and software, fraud, supplies, plastics the entire legacy apparatus that supports the institution's ability to be in business, etc. – the list goes on and on. Reaching into the stomach of the bank and just pulling out some of the stuff is not going to result in an answer that is going to preserve the system. The entire network that exists and is delivered by VISA and MasterCard and other providers has taken 50 years to build with billions upon billions invested. You cannot just dissect that into little pieces and pick and choose what you want to cover and allow other key costs to go unrecovered. The system will simply fail. All business reaches a competitive equilibrium over time wherein the providers and users drive the final outcome.

Government has not demonstrated that they can do this for the market place and in this case, leaving many of the costs on the sideline will result in those costs being recovered through some new method of recovery, i.e., a new transaction fee or a card charge. The consumer will be damaged and that is not necessary.

So I suggest to the FED, back away and stop this process. Allow Congress time to repeal or significantly modify the Durbin Amendment.

Any action by government must pass the first test - government should do no harm. My bank will lose nearly 70 percent of its revenue from the debit card if the twelve 12 cents per transaction is put in place as the cap. This cap means that my bank will lose seven 7 cents on every swipe of the debit card. Clearly, that reality is not sustainable and will force the bank to either eliminate the debit card or impose a direct charge on the cardholder, our customer. How does the consumer benefit from this action by the FED? Government should not pick winners and losers. This action will harm consumers, cost the nation GDP and kill jobs.

Banks faced with losing overdraft revenues and now interchange, must make major cuts or face ruin. That is already showing up in the media with announcements from major banks like B of A announcing branch closings and cutbacks and stating they will no longer subsidize retail products and services. Many more of these announcements will follow because overdraft fees and interchange revenues on debit cards represent 80 percent of the revenues banks generate to cover the costs of delivering vital products and services. The loss of these fees will result in many other collateral consequences such as the death of free checking and the many other free products and services that consumers currently enjoy and value. The innovation that has come from these revenues have driven banking to new heights by providing many more branches, ATM's, longer hours of operation and seven-day banking. The loss of these revenues will kill much of this progress.

It is time to wake up and understand how serious this interchange action will be. The consumer at the end of the day will be the loser because the retailers will not pass on the savings (no discounts are currently offered for cash or check) and the banks will be forced to impose <u>significant new fees</u> to generate the revenues necessary to support the product.

Sincerely,

Dennis E. Nixon