



THE  
**RICHWOOD BANKING**  
COMPANY

*Experience the Difference*

February 8, 2011

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

Re: Regulation II; Docket No. R-1404

Dear Ms. Johnson:

Thank you for the opportunity to respond to the Request for Comment issued by the Federal Reserve Board (FRB) regarding proposed Regulation II and its supplementary information.

As President/CEO of The Richwood Banking Company, a banking institution in Richwood, OH with \$340 million in total assets, I am writing to express my opposition to the proposed rule. We are full service community bank with 6 branches and 91 employees in central Ohio.

If the proposed rule is approved as presented we will lose approximately \$250,000 in income. We would be forced to charge fees for services currently provided at little or no cost to our customers. We would also be forced to consider charging our customers for using a debit card. Each time they use it we would lose money with the proposed changes.

Below are our specific comments regarding each section of Regulation II: the proposed interchange fee, transaction processing restrictions, and fraud-prevention costs.

**Proposed Interchange Fee**

In order to preserve the intent of the small issuer interchange rate exemption included in the law, we ask that you issue additional rules to guarantee the small issuer exemption in the marketplace and protect the interchange revenue of all small issuers.

As dictated in the law, you need to fully consider the "role" of the issuer in the authorization, clearing, and settlement of an electronic debit transaction. For example: In order to have a transaction processed on the network, an issuer needs to be a network participant. Participation requires the payment of various fees, including but not limited to network fees, participation fees, and debit card residency fees.

The FRB also needs to expand its view of settlement. The primary objective of the Electronic Funds Transfer Act is to protect individual consumers engaging in electronic funds transfers (EFTs). Network operating rules, which also provide consumer protections, require an issuer to maintain responsibility and liability for settlement until a cardholder's dispute rights have fully expired. Any costs incurred by an issuer throughout this settlement process should be considered allowable costs, including the cost of

inquiries and disputes; fraud losses and fraud-prevention costs; and fixed costs, including capital investments, used to support settlement.

The law specifies that the interchange fee shall be “reasonable and proportional” to the costs (not the exact costs) to authorize, clear, and settle a debit transaction; therefore, an allowance should also be made for a reasonable profit. If you do not take into account these factors, the proposed interchange cap is not a “reasonable” fee.

Additionally, in calculating the permissible interchange fee, the proposed rule does not recognize important value-added differentiators between debit cards and checks. For example: When a merchant obtains a proper authorization for a debit transaction, payment is guaranteed and the issuer suffers the loss in the event there are insufficient funds. Checks may be returned nonpayable, and merchants suffer the loss.

Alternative 2 (cap only) is the better alternative. Alternative 1 (safe harbor and a cap) would require the creation of a separate interchange rate for each covered issuer, as each such issuer would have different costs. This would require payment card networks to create a new interchange system for each covered issuer. Alternative 1 would be more expensive to all issuers, including small issuers, as the network implementation costs would be passed on to issuers.

### **Transaction Processing Restrictions**

Per the transaction processing restrictions portion of Regulation II, Alternative A (two unaffiliated networks) would be the most cost-effective alternative because community financial institutions would not have to join additional payment card networks. Additionally, if ATM transaction routing is included within the final rule’s scope, Alternative A would be the most cost-effective alternative. As a SHAZAM financial institution, we are already in compliance with Alternative A for both ATM and point-of-sale routing.

Alternative B (two unaffiliated networks per authorization type) may require reissuance of cards in order to comply with network branding requirements. This is an unnecessary expense and an inconvenience to our cardholders due to such things as recurring payments. If the FRB mandates Alternative B, it should require that an interchange adjustment be made to cover the increased cost to issuers for participation in multiple networks.

Additionally, the law states that merchants are not authorized to discriminate between debit cards within a payment card network on the basis of the institution that issued the debit card. The FRB should specifically address the discrimination aspect of the law in the final rules to provide protections for all issuers within a payment card network.

The FRB also needs to make allowances in the final rules for issuers to make decisions on debit card acceptance or routing in order to mitigate fraud. An issuer needs to have the ability to place restrictions or acceptance blocks on its debit cards to maintain or restore the security of an account or the EFT system without being cited for violating routing rules.

## Fraud-Prevention Costs

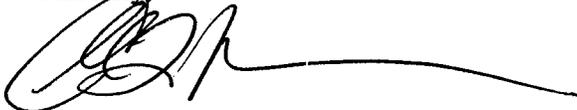
In discussing fraud-prevention costs, the FRB should organize and oversee a fraud consortium comprised of representatives of all stakeholders in the electronic payments industry. Its purpose would be to develop a holistic approach to fraud-prevention and liability allocation issues. Primarily, the consortium should come up with fraud-prevention alternatives that not only reduce fraud but also provide a positive return on investment for all stakeholders.

The consortium should develop non-prescriptive, fraud-prevention standards for merchants. Implementation of these standards could be monitored through an enhanced review of regulated merchant-sponsoring financial institutions. The consortium should also ensure that all parties have an equal opportunity to implement new technologies, and that small issuers are not denied such implementation opportunities due to excessive cost.

Finally, Alternative 2 (non-prescriptive) is the better alternative. It is not practical for the FRB to mandate specific technologies. We believe Alternative 1 (technology-specific) would stifle technological changes, as the FRB is not an expert regarding technologies that could reduce fraud.

Because of the many issues related to consumer harm and basic fairness, we urge you to strongly consider each of the points we have addressed in this letter. Thank you for your time.

Sincerely,

A handwritten signature in black ink, appearing to read 'CHL', with a long horizontal line extending to the right.

Chad L. Hoffman  
President/CEO  
The Richwood Banking Company