STERLING
Financial Corporation

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February 14, 2011

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1404; RIN No. 7100 AD63 (Proposed Interchange Regulation)

Dear Chairman Bernanke:

Sterling Savings Bank is a $9.5 billion asset-size Washington State chartered commercial bank with its headquarters in Spokane, Washington. Sterling is a leading community bank operating 178 branches in five western states. We appreciate the opportunity to comment on Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the proposed debit card interchange regulation. Our request is for the Federal Reserve to consider deferring implementation to allow more time to adequately investigate costs incurred by debit card issuers relative to the proposed regulation.

The proposed 12-cent cap does not take into consideration the costs incurred by issuers for card production, fraud detection and prevention, and fraud loss costs that are inherent to the program. Interchange was established with the intent to compensate issuing banks and to assist in offsetting charge-back and fraud expenses associated with issuing the cards. It is disappointing and problematic that these expenses have not been included in the overall assessment calculations used to determine the proposed cap.

The severity of the proposed regulation will impede the continued development and operation of debit card programs, especially for community banks like Sterling. Banks in smaller geographies have a limited population of customers to offset fixed expenses such as fraud detection systems. The cost of managing customer identify theft continues to rise. In contrast, larger banks, with distributed branch networks and significant customer populations will have an unfair financial advantage as they are able to allocate these expenses over a larger customer base. For Sterling, debit cards are a critical product offering, and our ability to compete with the large regional banks operating within our footprint will be impaired under the provisions of Dodd-Frank as currently structured.

It is our desire for the Federal Reserve to seek an extension from Congress so that a more comprehensive cost analysis may be completed prior to issuance of a final ruling. Because of the speed with which the bill was approved and the unrealistic timeframe it granted the Federal Reserve to adhere to its mandate, this hastily written rule will end up doing more harm than good for the consumers it was designed to protect. Following are Sterling's key concerns:

1. **Consumer freedom of choice will be challenged.** Granting merchants the ability to turn down customers based on the cards they choose to carry and the fact that it costs more to process not only takes away consumer freedom to choose, but also harms community banks that are so vital to our economy. Over time, retailers will shift consumers from cards drawn on community banks to those from large banks with the lowest interchange.

2. **The end of "Free Checking".** Debit cards are widely accepted by customers as the most convenient form of payment, with nearly 80 percent of checking accounts across the nation being accessed by debit cards. Without interchange revenue, issuing banks will be forced to find new ways to recoup the cost of offering the product. In any case, either the investment in card technology and rewards programs will decrease or account fees will increase; potentially both will result, as has already been evidenced in the market. Whichever form these account fees take, low income and elderly consumers will likely become the unintended victims of this proposed regulation, as low-cost checking and free services for hard-working Americans become a thing of the past.

3. **Increased technology costs required to implement specific provisions of the legislation.** Last-minute provisions pertaining to network exclusivity and routing standards seem to be in direct conflict with protections the Durbin Amendment has guaranteed small issuers. Requiring financial institutions, large and small, to contract with two debit network providers and allowing retailers, rather than consumers, to make the choice over which network the transaction is carried provides retailers a cost benefit while stripping consumers of their freedom of choice. In addition, small issuers lose because their cards will become more costly for retailers to accept. These are costs that have not been taken into consideration with the proposed interchange cap of 12 cents.

4. **Large retailers are the only winners.** With the proposed legislation, large merchants with greater technology resources gain the ability to decide which cards are accepted and which are not. Additionally, merchants will gain the power to negotiate similar or equal interchange rate structures to banks both over $10 billion and to the smaller community banks, because merchants will not pay the higher interchange fees associated with community bank debit cards.

5. **Free enterprise and capitalism inhibited.** History has shown that government price fixing almost always leads to negative, unintended consequences. We fully agree with merchants attempting to decrease their costs of doing business in order to increase profitability, but this should be accomplished with mechanisms that are consistent with free markets.

We respectfully request that the Federal Reserve protect consumers by reviewing the unintended, detrimental consequences of the proposed legislation before implementing price controls on debit interchange. Congress has repeatedly acknowledged that debit card programs provide considerable value to consumers and retailers alike, and that they are an important driver of national and local economic growth. The Federal Reserve has an opportunity to show its support for consumers and for the banking industry by preventing this devastating regulation from being implemented as proposed.

Sincerely,

Ezra Eckhardt
Chief Operating Officer