— State of —

North Dakota

Office of the Governor

Jack Dalrymple
Governor

March 28, 2011

The Honorable Harry Reid
522 Hart Senate Office Building
Washington, DC 20510

The Honorable Mitch McConnell
361-A Russell Senate Office Building
Washington, DC 20510

The Honorable John Boehner
1011 Longworth House Office Building
Washington, DC 20515

The Honorable Nancy Pelosi
235 Cannon House Office Building
Washington, DC 20515

Dear Senate and House Leaders:

I am writing to express my serious concerns regarding the potentially harmful effects of the Federal Reserve's proposed rule implementing the debit card interchange fee and routing provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Debit Interchange Fee Amendment"). To provide the necessary time to properly address these concerns, I respectfully request your support for legislation to allow for more careful consideration of this issue.

My concerns are threefold. First, I believe that, as proposed, the Federal Reserve's rule could have the unfortunate and unintended impact of imposing increased costs on states that use prepaid card programs to deliver cost-effective assistance in our communities. Second, I am also concerned that the rule could have unintended impacts on small and community banks, small businesses, and consumers. Third, the rule may result in significant job loss in the financial services industry at a time when we need to create jobs and foster growth.

Importantly, this legislation will simply provide the necessary time for bank regulators to fully examine the effects of the proposed rule and address any unintended consequences. For example, it is doubtful that Congress intended to hamper our already tenuous state budgets but the reality is that prepaid debit cards provide governments, taxpayers and the recipients of government assistance numerous benefits. At the state level, these cards eliminate the need to print and mail checks to government assistance beneficiaries, saving our states – and taxpayers – millions of dollars each year. For government assistance recipients, these cards provide secure, dignified and convenient access to their benefits. This is an especially important benefit for recipients who do not have bank accounts, sparing them from high check-cashing and money order fees they are otherwise forced to pay in order to access funds and pay bills.

Financial institutions that issue these prepaid cards do so at minimal cost to states because they are able to rely on interchange fees to cover their costs. While the Debit Interchange Fee Amendment attempted to exempt debit cards issued through these programs from the low interchange rates, I believe the rate for government prepaid debit card transactions will nevertheless be driven down to those same low rates due to market forces. With less revenue per transaction, the cost to support the programs will be shifted to benefit recipients or to the states. At a time when our states' budgets are severely strained, I simply cannot afford such additional costs.

As state and local governments continue to struggle to recover from the recession, it is also critical that the federal government foster an environment that supports job creation and economic growth. Federal entities, such as the Federal Reserve, have a special responsibility to use their regulatory authority to enhance the ability of financial institutions to borrow and lend money in a manner consistent with the principles of our free market economy. Unfortunately, the price control scheme imposed in the proposed rule is inconsistent with this responsibility and, if left unchanged, it will limit job growth, further constrain lending, and threaten the profitability and possibly the survival of many small and community banks. While the statute intended small and community banks to be exempted from the lower interchange fee mandate, we are concerned the rule will severely impact them anyway because merchants will not accept the more expensive cards, or because networks will not be willing to have a two-tiered pricing system.

I am also very concerned that the proposed regulations will harm two of our constituencies who can afford it the least: lower-income households and small businesses. Consumers and small businesses will face higher retail banking fees and lose valuable services as financial institutions, especially small banks and credit unions, seek to make up as much as they can of the debit interchange revenues they will lose under the Federal Reserve's proposal (an outcome that the Federal Reserve has anticipated). It is estimated that these two groups of users of retail banking services will lose more than $32 billion in the first 24 months the proposed rules are in effect. That is $1.33 billion a month that will not be flowing into our local economies and helping to return our states and the nation to prosperity. Such revenue losses may lead to job losses at a time when we are trying to add jobs to our local economies.

In closing, as the Federal Reserve develops a Final Rule, I strongly believe that additional time is needed to explore the wide-ranging consequences of the proposed rule. These consequences are real, whether it be jobs in the financial services industry, consumers, or the bottom line on our state budgets.

Sincerely,

Jack Dalrymple

Jack Dalrymple
Governor

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C: The Honorable Ben S. Bernanke, Chairman
The Honorable Timothy F. Geithner, Secretary
The Honorable Tim Johnson
The Honorable Richard Shelby
The Honorable Spencer Bachus
The Honorable Barney Frank