

From: First State Community Bank, Timothy C. Peterson
Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:

I am an officer of a \$1.2 Billion bank holding company with approximately 33 branches and I am writing to express my concerns with the proposal put forth by the Federal Reserve Bank to cap interchange fees on debit card transactions. The mandate created by the Durbin Amendment to the Dodd-Frank Act will not be a realistic benefit to consumers. Our bank is under the \$10 Billion bank exemption, but I do not believe for one minute that we will be able to compete with the larger providers of debit card interchange without matching their pricing. This reduction in interchange fees will negatively impact our bank's non-interest revenue. To offset this loss of revenue we will be forced to increase fees on other products and services at our bank. Also, I do not believe that merchants, who will be the direct beneficiary of these lower costs, will necessarily pass these cost savings along to their customers. We currently estimate that the revenue we derive from debit card interchange fees will be reduced 70%. We do have significant costs associated with these fees ranging from the labor component to fraud losses. We currently have 4 full time staff members who work with debit cards and each of our branches spend significant time working with customers on card issues. Without sufficient income to offset these costs, we will be required to increase fees from existing and new products which will have the effect of making banking more expensive to our customer base. A very realistic casualty in banking services may be our "free checking" product. This can have the unintended consequence of increasing the number of unbanked individuals. I ask the Federal Reserve Bank to reconsider this proposal that contributes to a drastic reduction in the interchange fee rate. This will have a very negative impact on our bank and our ability to service customers adequately. Thanks for the opportunity to submit these comments.