

SERVING BANKERS



SERVING OKLAHOMA

OKLAHOMA BANKERS ASSOCIATION

ROGER M. BEVERAGE
PRESIDENT AND CEO

February 17, 2011

Ms. Jennifer J. Johnson
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D. C. 20551

RE: Docket No. R-1404
RIN No. 7100 AD63

Dear Ms. Johnson:

We represent the commercial banking industry in Oklahoma and are writing on behalf of our state's traditional community bank members about the proposed rules for debit card interchange transactions.

More than 95 percent of our state's 246 commercial bank members issue debit cards to their customers, and two-thirds provide merchant card services that enable the bank's merchant customers to accept debit cards. Of the latter amount, debit card interchange income is listed as "very important" or "critical to our operation" by three out of four banks in Oklahoma. In most instances at smaller community banks, these fees cover the expenses of various program offerings that will be either changed or eliminated in order to remain profitable, as noted below.

Perhaps the most obvious concern is that the proposed rule ignores the actual costs incurred by every bank that provides merchant card services including both hard and soft costs of establishing, maintaining, and managing the entire debit card operation. Many of our member banks devote a significant amount of personnel expense to deal with debit card issues, including disputes between bank customers and retail merchants.

Most importantly, the increasing cost of fraud in the use of debit cards has been virtually ignored. The proposed rule only considers the minimal incremental cost incurred in each transaction and, thus, cannot possibly be expected to allow banks to continue to offer many current products and services without some major adjustments.

For community banks in our state, the primary adjustments will come in the form of reduced services to consumers. While most (84 percent) will continue to offer debit cards, some 82 percent are considering implementing debit card

Ms. Jennifer Johnson
February 17, 2011
Page two

transaction or annual fees and two out of three member banks will likely impose eligibility requirements on all debit cards.

Ninety percent of our member banks are "somewhat" or "very" likely to eliminate free checking programs as a result of this proposal, and 93 percent are likely to increase checking account maintenance fees. For those member banks that offer them, 90 percent are likely to eliminate debit card reward programs.

We encourage the Federal Reserve to recognize that fraud losses have to be borne by the bank and the bank will need to generate revenue to cover the fraud losses or not offer debit card services. The latter alternative is hardly realistic in today's competitive environment. Right now the retail merchant escapes any liability for debit card fraud, and they have no incentive to make sure the customer is the "right" person and that the transaction is otherwise legitimate.

The same is true for a bank's personnel costs: someone – most likely the customer – will be required to bear that cost. The simple reality is the lost revenue has to be made up somewhere, and the list of targets or "options" for getting that money back, in addition to those noted above, include charging an annual fee for the card; charging a fee for issuing lost or worn out cards; imposing monthly fees on electronic banking; implementing fees on check cashing for non-customers; and cutting back on the amounts that banks contribute to their local communities. These are the practical results and some of the unintended consequences if this proposed rule is adopted.

Merchants argue that consumers will pay less because of this rule. Nothing could be further from the truth. If there are to be price controls, we implore you to at least enable banks to cover their costs of offering debit card services to consumers.

It's a great system that has been created and established by the commercial banking industry. It's a system that allows a debit transaction to conclude within seconds, regardless of where the consumer may be. The merchant is paid promptly, without any risk of loss or fraud. That's pretty phenomenal when you stop to consider what the merchant is getting in exchange for accepting the card for payment. At a minimum debit card issuers must be able to recover their costs; otherwise, consumers will bear the brunt of increased prices and fees for traditionally free or low-fee goods and services.

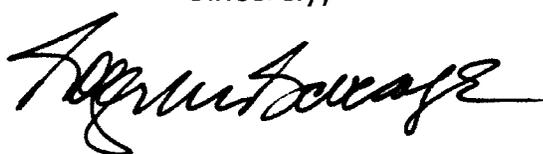
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Jennifer Johnson
February 17, 2011
Page three

Please reconsider this proposal and enable debit card issuers to recover all of their costs – especially fraud costs – in fixing an amount for fees that is both fair and reasonable to all parties involved in the transaction, not just retail merchants.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer Johnson", written in a cursive style.

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