



James C. Smith
Chairman and
Chief Executive Officer

Webster Bank, N.A.
145 Bank Street
Waterbury, CT 06702
Business 203.578.2214
jsmith@websterbank.com
WebsterOnline.com

February 21, 2011

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

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
2011 FEB 23 PM 2:00
OFFICE OF THE SECRETARY

Dear Ms. Johnson:

I am writing this letter to express my serious concern and profound disagreement with the Federal Reserve Board's proposed rule on Debit Card Interchange Fees. While I respect the fact that that the Federal Reserve Board is attempting to fulfill its duty under the Dodd-Frank Act, the rule as drafted is unduly limiting when viewed in the context of the law. I am asking that the Fed delay the implementation of the rule until it has had time to collect more information and analyze the rule's impact on consumers, financial institutions, and the economy as a whole. I also am asking that the Federal Reserve delay issuing final rules until fraud prevention standards have been established. This will allow the Federal Reserve to include the cost of fraud and fraud prevention in the standards that it enacts for interchange fees.

Webster Bank offers debit cards to its transaction account customers and relies on the income from debit transactions to offset partially the costs associated with providing transaction account services. Webster does not view the debit card as an isolated, stand-alone service that should earn revenue equal to its marginal cost but rather considers it integral to Webster's account offering. Mandating a reduction in interchange fees will inevitably reduce account revenue. In the event the rule is adopted as proposed and interchange revenue is reduced, banks will be forced to recover the costs of offering debit cards, including capital costs, by raising other fees. These higher fees will be paid directly by customers rather than, as now, borne by the merchants who benefit from the payments system.

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Instead of affording consumer protection, as ostensibly intended by the Durbin Amendment, the proposed rule will negatively impact consumers, since there is no requirement, and thus minimal likelihood, that merchants' savings from reduced interchange fees will be passed on to consumers. The proposed rule's cap on debit interchange fees of 7 to 12 cents per transaction is roughly eighty percent below current fees and far below what it actually costs banks to provide customers with debit card services. Banks will be forced to respond in ways that will impact consumers negatively, including higher transaction account fees and the introduction of debit card transaction limits. The proposed rule will accelerate branch consolidation in the industry as the costs associated with servicing consumers must be rationalized. As a result, the proposed rule also will likely swell the ranks of the unbanked, which is certainly not the legislation's intent.

The Federal Reserve's proposed rule extends beyond the authorization under the Durbin Amendment and will result in unintended consequences that will negatively impact consumers. Specifically, there are three flaws in the proposed rule: 1) the proposed rule imposes price caps and limits, which are inconsistent with Dodd-Frank legislation; 2) the proposed rule applies the statute's standard of "reasonable and proportionate" to costs instead of fees; and 3) the proposed rule focuses on variable costs versus incremental costs, as outlined in the statute.

The Dodd-Frank Act authorizes and requires the Federal Reserve to implement rules that establish *standards for assessing* the reasonableness of interchange fees and their proportionality to incremental costs associated with debit card transactions. However, instead of setting standards for fee assessment, the proposed rule establishes price caps for interchange fees that are equal to estimated variable transaction costs. The proposed rule transfers all revenue realized over that amount from the banks to retailers without any required, or even expected, benefit to consumers.

The Federal Reserve's narrow interpretation of "incremental costs" fails to consider many cost classifications required to offer debit card services to customers. The Federal Reserve limited incremental cost to the variable costs specifically associated with authorization, clearance, and settlement of individual

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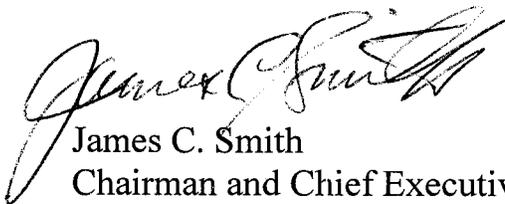
debit card transactions. Under the proposed rule, banks are not permitted to profit from debit card services, let alone recover variable costs associated with transaction funding, credit losses, fraud losses, billing and collection, data processing, privacy and protection of consumer data, new card issuance, rewards program, and customer service. The Durbin amendment does not prohibit the Federal Reserve from considering incremental costs beyond those associated with “authorization, clearance or settlement” of a specific transaction. Accordingly, I ask the Federal Reserve to revisit its interpretation and amend the proposed rule.

In summary, the Federal Reserve should delay implementation of the proposed rule until it has gathered sufficient data to evaluate fully its impact on consumers, banks, and the economy. Specifically, I am asking the Federal Reserve to consider the following:

- The proposed rule should establish standards for evaluating the reasonableness and proportionality of debit card interchange fees to incremental costs.
- The rule should focus on fees rather than cost recovery and should not impose price controls or caps.
- The definition of incremental costs, as outlined in the proposed rule, should be broadened to consider all incremental costs, not just the variable per transaction cost associated with the authorization, clearance, and settlement of debit card transactions. Fraud prevention standards should be established so that the cost of fraud and fraud prevention can be recovered.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Smith". The signature is fluid and cursive, with the first name being the most prominent.

James C. Smith

Chairman and Chief Executive Officer