

February 8, 2011

To: Members of the U.S. Senate  
Members of the U.S. House of Representatives

Re: Federal Reserve's Interchange Rule

The undersigned banking trade associations are writing to express our strong opposition to the Federal Reserve's proposed rule to implement Senator Richard Durbin's interchange amendment. The Durbin amendment (passed as part of the Dodd-Frank Act) directs the Federal Reserve to set price controls on debit card interchange transactions. The proposed rule to implement the amendment, announced by the Federal Reserve in December, will cause severe harm to the entire banking industry and, in particular, to community-based banks and the communities they serve. We strongly urge Congress to intervene immediately to stop the Federal Reserve's interchange rule from being implemented.

As passed, the interchange amendment directs the Federal Reserve to determine a "reasonable and proportional" fee for the amount a merchant is charged on each transaction to use the debit card payment network created by the banking industry. Unfortunately, the Federal Reserve has put forth a very restrictive implementation rule. The rule gives no consideration to the overall costs to maintain or improve the U.S. payment system, the full costs that banks bear to provide the service, the costs of fraud and fraud prevention (the vast amount of which is borne by the banking system), and the need for a return on capital. The Federal Reserve's proposal only allows a very limited return on each debit transaction, so limited that it would result in a 70-85 percent cut in revenue – a loss of revenue amounting to more than \$14 billion that could otherwise be used to drive economic recovery.

If the Federal Reserve's rule is not stopped, banks will have fewer resources available to make loans in their communities and will be faced with very difficult choices, including not issuing debit cards, raising other fees, eliminating staff, and limiting other services that customers have come to expect. This lost revenue would impair capital growth and reduce the ability of banks to make job-producing loans that support a growing economy.

Banks of all sizes, but particularly community banks, are facing a number of challenges in this economy. These institutions are key to growing the economy and helping small businesses create more jobs. Proposals like the debit interchange rule would only further harm these banks by dramatically reducing revenues with no real benefit to the consumer.

Recognizing that this amendment would be harmful to community-based banks, Congress attempted to "exempt" institutions below \$10 billion. Unfortunately, this "exemption" will not work because marketplace pressures will force all banks to conform to the artificially lower government mandated interchange rate restrictions to which larger banks will be subject. In the end, all banks will suffer from the interchange rule.

Congress passed the Durbin interchange amendment without any Congressional hearings on the amendment or informed consideration of the amendment's impact on consumers, the economy,

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and banks. We strongly urge Congress to move immediately to stop the Federal Reserve from implementing the interchange rule.

Sincerely,

American Bankers Association  
Alabama Bankers Association  
Alaska Bankers Association  
Arizona Bankers Association  
Arkansas Bankers Association  
California Bankers Association  
Colorado Bankers Association  
Community Bankers Association of Ohio  
Connecticut Bankers Association  
Delaware Bankers Association  
Florida Bankers Association  
Georgia Bankers Association  
Hawaii Bankers Association  
Heartland Community Bankers Association  
Idaho Bankers Association  
Illinois Bankers Association  
Illinois League of Financial Institutions  
Indiana Bankers Association  
Iowa Bankers Association  
Kansas Bankers Association  
Kentucky Bankers Association  
Louisiana Bankers Association  
Maine Bankers Association  
Maryland Bankers Association  
Massachusetts Bankers Association  
Michigan Bankers Association  
Minnesota Bankers Association  
Mississippi Bankers Association

Missouri Bankers Association  
Montana Bankers Association  
Nebraska Bankers Association  
Nevada Bankers Association  
New Hampshire Bankers Association  
New Jersey Bankers Association  
New Mexico Bankers Association  
New York Bankers Association  
North Carolina Bankers Association  
North Dakota Bankers Association  
Ohio Bankers League  
Oklahoma Bankers Association  
Oregon Bankers Association  
Pennsylvania Bankers Association  
Puerto Rico Bankers Association  
Rhode Island Bankers Association  
South Carolina Bankers Association  
South Dakota Bankers Association  
Tennessee Bankers Association  
Texas Bankers Association  
Utah Bankers Association  
Vermont Bankers Association  
Virginia Bankers Association  
Washington Bankers Association  
Washington Financial League  
West Virginia Bankers Association  
Wisconsin Bankers Association  
Wyoming Bankers Association