

REC'D 2.22.11

February 1, 2011

Federal Reserve Bank of Richmond
Jeffrey M. Lacker, President
701 East Byrd Street
Richmond VA 23219

Dear Mr. Lacker:

I am contacting you on behalf of Bank of Charles Town to express my grave concerns about the debit card provisions of the Dodd-Frank Act (Section 1075) which have resulted in the Federal Reserve engaging in price fixing to the benefit of virtually no one. This debit price fixing legislation is fundamentally bad policy and requires thorough review and amendment before implementation.

We believe the debit provisions are inconsistent with basic American free enterprise principles and will have severe unintended consequences that will harm consumers, threaten data security, and stifle payments innovation.

Bank of Charles Town is a small community bank in the Eastern Panhandle of West Virginia that serves approximately 40,000 customers and employs 97 people in your Federal Reserve District. We believe that these regulations on debit card transactions will have negative and unintended consequences that will harm my business and affect the services I am able to offer my customers.

The Federal Reserve Board's proposed rules for implementing the debit provisions of the Dodd-Frank Act stem from legislation that is bad policy – Bad for consumers, Bad for financial institutions and Bad for the economy. The legislation was adopted without hearing, debate or study and requires thorough review and amendment before implementation.

Price Controls

- The Board's proposal amounts to price fixing; that's anti-competitive.
 - The Board is proposing to deduct thousands of dollars a year from my banks capital at a time when regulatory requirements and economic conditions demand an increase in bank capital to both meet those regulatory requirements and to support additional lending.
 - Efficient and innovative payment services are critical to the economy and were one of the main reasons for the creation of the Federal Reserve System (e.g., payment card innovations have been critical to the development and growth of global Internet commerce).
 - Anything that limits financial growth in local communities is bad for the overall economy.

- The Board has proposed artificial caps on debit interchange that do not reflect the true costs of running a secure, reliable and efficient debit network. Even the authors of the overall Dodd-Frank Act, Senator Christopher Dodd and Representative Barney Frank, have said the Board overreached.
 - The proposal puts at risk the investments that keep the payment system secure today and creates a disincentive for ongoing investment in system improvements and innovation, like mobile payments.

Consumer & Small Bank Harm

- As members of Congress said in letters recently sent to Chairman Bernanke, appropriate consideration should be given to important issues regarding the potential harmful impact the recommendations will have on consumer choice, privacy and data security protections, as well as their impact on the ability of small financial institutions to compete effectively.
- Consumers will end up paying more and getting less, despite the law's stated intent.
 - With a significant drop in revenue, banks may be unable to continue debit programs in their current form.
 - Banks of all sizes have already started to acknowledge that they may be forced to raise consumer fees or reduce services as a result of this and other recent financial regulation.
 - Even the Board admits that consumers could face higher costs as a result of their proposal.
 - The routing and exclusivity requirements added to the Durbin Amendment at the last minute will eliminate consumer choice and the ability to deliver secure and reliable debit services.
- Smaller community banks and credit unions are not truly protected from price fixing.
 - To its credit, Congress recognized the importance of interchange revenue to smaller institutions and agreed to 'carve out' those with assets below \$10 billion and certain products.
 - Unfortunately, a contradictory "routing and exclusivity" requirement was added giving retailers the ability to steer transactions away from smaller institutions and their protected rates.
 - So, while smaller institutions are theoretically eligible for exempted fees, there is no guarantee they will see them as market forces drive volume towards artificially low rates.
 - The routing and exclusivity requirement will also increase costs to all banks adding additional networks to their cards.

Recommendation

- Any legislative action with an impact of this magnitude deserves serious deliberation.
 - However, Congress never had the opportunity, as there were no hearings, no debate and no studies related to the debit provisions.
 - At a minimum, implementation should be delayed so Congress can hear both sides in this debate. Also, joint federal agencies should study this issue and provide an objective assessment of the impacts before the provisions become law.

Sincerely,



Angie Ferrari
AVP/Branch Manager
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