

September 28, 2011

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

Delivered Electronically

Re: Debit Interchange Fraud Adjustment Proposal; Docket No. R-1404

Ms. Johnson,

The Northwest Credit Union Association (Association)¹ welcomes the opportunity to comment on the Federal Reserve Board (Board) proposal allowing the addition of a 1 cent fee to debit interchange transactions by large issuers complying with established fraud prevention standards.

General Comments

Overall, the Association strongly objects to the Board's interpretation of Congressional intent when adopting changes to the debit interchange fee structure and routing and exclusivity provisions as mandated by Dodd-Frank². As witnessed in other countries, such government mandates do not result in lower prices for consumers.

We believe this regulation will apply significant downward pressure to debit interchange income for all providers - even small issuers (those with less than \$10 billion in assets) "carved out" of the fee changes. Upon implementation, small providers will quickly begin to feel the impact of this regulation as merchants become more reluctant to accept their "higher-cost" cards.

Even the Board has expressed concern about the viability of a two-tier system. The Association supports the efforts of the Board to put regular monitoring of this two-tier system in place and trusts that the Board will take swift action should the system established to protect the interchange income of small issuers begin to erode or become less than effective.

¹ The Northwest Credit Union Association is a regional trade association representing the interests of more than 200 credit unions and their six million consumer-members; institutions that employ and engage more than 10,000 people and hold more than \$50 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in the Northwest quadrant of the United States, but the Association also has members from the states of Alaska, Idaho, California and Hawaii. Learn more about the Association at www.nwcua.org.

² The Dodd-Frank Wall Street Reform and Consumer Protection Act [Pub. L. 111-203, 124 Stat.1376 (2010)] was enacted on July 21, 2010. Section 1075 of the Dodd-Frank Act amends the Electronic Funds Transfer Act (15 U.S.C. 1693 *et. seq.*) by adding section 920 regarding interchange transaction fees and rules for payment card transactions.

1 Cent Adjustment

In an effort to aid responsible issuers in covering the costs of fraud prevention and create as much parity between the fees charged by large and small issuers, the Association supports adding an allowance for fraud prevention costs to the proposed fee scheme³.

The industry has overwhelmingly expressed concern that this 1 cent allowance does not cover fraud prevention costs which not only include technology, but hundreds of man hours. We urge the Board to continue to study this issue and remain flexible in implementing an adjustment that reflects the changing world of fraud prevention methods.

Non-Prescriptive Approach

We support the Board's adoption of a non-prescriptive approach under which covered issuers will have the ability to tailor their fraud-prevention programs to their current and ever-changing needs. The industry, rather than the Board, is best suited to select necessary technology and practices while leaving room for innovation.

Certification and Reporting

The Board has requested comment on whether or not the final rule should establish a consistent certification process and reporting period for an issuer to certify to a payment card network that it is in compliance with the Board's standards and is eligible for the fraud adjustment. The Association strongly supports a common reporting and verification process amongst payment card networks to help ease the potential burden of preparing multiple reports for varying card networks. To acquire and maintain this adjustment, issuers will have considerable new information to monitor, aggregate, and report and adding the addition of multiple methods for establishing eligibility for the fraud-prevention standards as established by the Board could unnecessarily add to the potential compliance burden.

Marketplace Reaction

We have been carefully watching industry reaction to the new regulation as free checking disappears from major banks and monthly account fees or debit card usage fees are imposed. The Association and its members remain concerned about the true implications of this rule and the impact it will have on consumers.

With the implementation date of this rule just days away it does not appear retailers are preparing to pass their direct savings in interchange fees along to consumers. Further, we fear that merchants will begin steering customers toward using those cards that have the lower debit interchange fees - such as those provided by larger issuers or prepaid or store-branded cards.

Closing Comments

The Association must once again express its disappointment with the overall development of this rule. While the final rule is significantly more palatable than the original proposed 12 cent cap we believe it puts small issuers at a disadvantage, not only getting swept into the wave of fee reductions but fearing their member-owners may soon be turned away from merchants unwilling to accept the higher cost cards.

³ As allowed under EFTA Section 920(a)(5).

We appreciate the role of the Board in continuing to monitor this system as it is implemented and would urge vigilance in maintaining a two-tier system and protecting the fee income of small issuers, as Congress intended.

We would be happy to answer any questions you may have.

Sincerely,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association