

From: Metrum Community Credit Union, Steve Kelly
Subject: Reg II - Debit card Interchange

Comments:

February 3, 2011

Federal Reserve Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Federal Reserve Board:

I am the President of Metrum Community Credit Union, a 5,000 member CU with \$50 million in assets. In addition, I am the head of household of five consumers.

The first topic I would like to give feedback on is the choice between two alternatives for Interchange Fees. The Durbin Amendment's Interchange rate setting provisions is to limit the amount of interchange income to "reasonable and proportional costs" incurred by the issuer for authorization, clearance and settlement of the transactions. The only choice, if forced upon us, is the second option of setting the maximum cap of 12 cents per transaction.

I am very concerned with the two options presented for Interchange Income, where the only choice appears to be the second option, of setting the maximum cap at 12 cents per transaction. It appears that the Fed will continue down the same path as our elected Representatives, with a total lack of understanding of the financial affects, which will occur with these actions.

How is it possible that 12 cents a transaction covers the cost of authorization, clearance, and settlement costs? Our institution serves 5,050 members with total assets nearing \$50 million. On average, our debit card transactions are 27,100 per month. The following are our costs for authorization and settlement only, per month average: Visa Fees \$1,320 COOP (Our processor) \$3,850 Total \$5,170

Our costs for authorization and settlement only, are 19.08 cents per transaction, a 59% loss over the capped 12 cents per transaction. The Interchange Income does not even match the authorization and settlement costs and we haven't even begun the other costs associated with running a debit card program. Here's an overview: Visa Administration fees \$ 150
Visa other fees \$ 10 Network Fee (Plus) \$ 75 Coop Admin \$ 300 Fraud Program \$ 500 Plastics/Fraud Losses \$ 475 (Based on Average for 2010-Great Year-low fraud losses) Telecommunication Fee \$ 85 DP Module Fee \$ 600 (Data Processor costs for on-line real time program software)
ATM costs \$1,300 Total Other Hard Costs \$3,495

Total Out of Pocket Cost \$8,665

Our costs, per month, for all hard costs per transaction are 31.97 cents per transaction or 19.97 cents per transaction over the 12 cents allowed. This is a 166% loss to the credit union per transaction, and we haven't

begun to discuss staff time and overhead costs.

We estimate that it takes two full-time employees to run our programs, work with members and complete normal debit card program functions. In addition, there are supervisory salaries to be paid, a data processing system to run and the costs to have a facility to do so—chairs, desks, phone system, internet connectivity (T1) lines, the building, and other associated costs. What's the cost to run a debit card program? Well, the two staff members alone cost \$96,000, in salary and benefits. The other numbers, we have not attempted to allocate the percentage of each too.

Our total Interchange Income in 2010 totaled \$xxxxxx, minus the hard costs of \$103,980, plus salaries of \$96,000, our total costs to run the debit card program are \$199,980. Today, we run at a loss of \$52,980, before adding overhead costs. But, Government representatives and now the Federal Reserve plan to reduce our Interchange Income from 45.20 cents per transaction to 12 cents. Please explain—How does this help our members? How does this reduction in fee income keep a small employer (16 employees), employing their people? Maybe, I have missed something over the past three years—but isn't job growth the number one issue facing America!

The exemption for smaller institutions must be enforced. The two-tiered system must be enforced, at a reasonable and proportional cost. Finally, the potential discrimination by a retailer or retailers must not occur.

The 2nd topic I would like to give feedback on is the alternatives for networks which carry the transactions. One choice is the card transaction must be carried over at least two unaffiliated networks, one signature and one PIN. The second choice is that the card transaction must be carried over two unaffiliated networks for both signature and PIN. The reasoning behind this is not clear to our small institution, especially the second choice of running the transaction over two unaffiliated networks for BOTH signature and PIN.

Metrum Community Credit Union only has a signature based program, as completing PIN based transaction for POS transactions added fixed and variable costs to our program. A simple decision was made to offer PIN based transactions at ATM machines only and not at merchants. A majority of our Debit Card Holders, never use an ATM, so confusing them with having to remember their PIN at a merchant made no sense either. The second choice of running a transaction through two networks for signature and PIN is mind boggling. That would mean running transaction for signature transaction through both VISA and MasterCard! Why? Our cost of being associated with only Visa runs \$17,760 per year! Now the solution is to double our operating costs! How does this help the consumer? Answer - it doesn't! I am sure there must be a good reason, but after reading as much material as I can get my hands on - I haven't seen one! Option two is not an option, unless the goal is to make Visa and MasterCard more money! If we were forced to add the PIN authorization to our program, it could be done. So option one is the lesser of two evils. It is our understanding that our interchange income would decline under this scenario and our expense would increase. There is no benefit to the institution. What is the real reason behind this - big retailers! Are the big retailers going to only accept Debit Cards, if it is a PIN based transaction? If so, how is this all for the good of the consumer? As I mentioned earlier, a

majority of our Debit Card Holders don't know their PIN! Real consumer oriented!

As an employee of a credit union, I can't believe that the Durbin Amendment was added to the Financial Reform Bill without discussion! Just recently, the newly elected House and Senate Members began discussions about Pork! Even our President announced at the State of the Union speech on January 25, 2011, "I will not sign a bill that has any pork added!" Stop the implementation of this poorly thought out "pork", until it can be appropriately thought through!

As a consumer, am I going to have to worry about which retailers I can visit? As I don't want to complete my grocery shopping to find out the retailer won't accept my debit card or I have forgotten my PIN number! As a consumer and employee, the actions being taken within the banking system is fundamentally wrong! Is the banking system not a part of the "free market" system, where competition sets pricing? What's next, all grocery stores will have "fixed" pricing on produce, meats, etc? Or: All clothing stores must have the same pricing for a polyester white shirt? Or: All \$250,000 dollar life insurance policies have the same price, no matter what your age?

The Financial Reform Act will not correct the systems problems! The problems will only be corrected when the perpetrators (read biggest banks) are allowed to fail, instead of receiving a government bailout! All these supposed improvements increase costs to consumers and hurt the 97% of the institutions who did no harm!

I can read the paper headlines now - Millions more Consumers Move into the Unbank Market Place.

Sincerely,

Steve Kelly