

From: Don Apgar
Subject: Reg I I - Debit card Interchange

Comments:

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From an economic perspective, the interchange system reflects a classic market in equilibrium. I have been in the electronic payments industry for over 25 years and have seen many changes to interchange fees and rules. Fees must be low enough to provide value for merchants and high enough to incent issuers to issue cards. You cannot reasonably expect to regulate only one aspect of the market without it forcing other unintended changes that will in effect restore the equilibrium that was upset by the regulation. If POS debit card interchange is capped at \$.12, issuers will lose a significant income stream from that product. It would not be unreasonable for an issuer to a) cap fraud losses by "unbranding" their debit cards so that they are only usable with a PIN; b) impose a POS usage fee of \$.50 or more on the consumer for the privilege of using their debit card at POS; c) eliminate any fraud protection for the consumer; or d) all of the above, and more. Branded cards, whether credit or debit, have simply become a fast and convenient way to transact. If banks take steps to discourage POS debit card usage, consumers will likely switch to using credit cards. If the NRF believes that debit cards should clear "at par" like checks do, maybe some of the NRF members would like to go back to the days of accepting paper checks, taking them to a local bank every day for deposit, and chasing the ones that bounce? The fact is that the NRF represents large national chain stores, and 95% of the interchange fee reduction will benefit less than 1% of the retailers. Expecting that these mega-chains will lower prices because their costs went down is pollyanna-ish at best. This proposed regulation does nothing to aid small local merchants or build jobs, despite the big risk it creates by up-ending the equilibrium in the payments market.