

From: Justice Federal Credit Union, Peter J Sainato
Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 17, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
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Honorable Members of the Federal Reserve Board: As President of the Justice Federal Credit Union, I appreciate the opportunity to comment on the proposed Interchange Regulation. Justice FCU is a financially sound \$500M financial cooperative which proudly serves the men and women of the justice community across our nation. We are quite concerned that this regulation will have extremely negative effects on consumers, despite good intentions that this change would be consumer friendly. As a cooperative, we are not concerned with share-holders and therefore our focus is solely on providing value to the consumer - our members. Within the spirit of the cooperative community, our concerns are as follows:

- Our Credit Union incurs significant expenses in operating our card payment systems and interchange income supports these costs. If the proposal to reduce interchange to .12, an approximate 70% reduction takes place, this significant reduction in revenues would result in direct losses to our Credit Union, and likely would have to be made up by other sources.
- Members currently benefit from lower fees on their checking accounts which are tied directly to debit cards. We believe the proposed legislation will have a negative effect on checking accounts and could result in higher monthly and annual fees.
- As a Credit Union, we do not want to charge members additional fees related to their checking accounts as these accounts are the foundation of many households across the country.
- Members and their families benefit from debit card reward programs. This benefit represents a sharing of the interchange income with members and is a reward to members for their loyalty. In addition, this activity certainly promotes commerce. These programs will have to be reevaluated if the proposed change is made law as the .12 cap would not permit the continuance of these programs.
- The consumer, and merchant, currently have no liability in fraud losses. I am concerned that this proposed legislation may eventually lead to a greater responsibility for both

reporting and absorbing losses, and that this burden will then be placed upon the consumer and merchant. • While there is a carve out for smaller issuers like Justice Federal CU, we believe market forces will prevail essentially eliminating any proposed benefits. The current system, while not perfect, is functioning well, and I urge the Federal Reserve to suspend the current proposal, and move forward with an expanded study of interchange income. I further urge the Board to consider all aspects of any changes, as I am afraid that families nationwide will not be the beneficiaries if the current proposal takes effect. As it stands now, the merchants will be the big beneficiaries as there is no requirement that any reduction in merchant costs will be then passed on to the consumer.