

From: Chris Cazaubon
Subject: Reg I I - Debit card Interchange

Comments:

Secretary Johnson

I appreciate the opportunity to comment on the Federal Reserve Board's ("Board") proposed rule entitled "Debit Card Interchange Fees and Routing." The proposal would create government price controls and limit debit card interchange fees collectible by card issuers to between 7-12 cents per transaction. If adopted, it is expected that debit card interchange revenues for issuing institutions will be decreased by 70-85 percent.

The proposed price controls will severely limit the ability of card issuing institutions to cover the costs of providing debit card services. As a result, card issuers will likely be faced with two options that are negative to the consumer: not offering debit cards to their customers; or increasing fees for other products and services such as maintenance fees on checking accounts, or limiting card rewards programs and other services customers have come to expect in order to defray costs associated with debit card programs.

I strongly encourage the Federal Reserve Board to revisit the 7-12 cent cap proposed in the rule, and to exercise the maximum amount of discretion possible to identify and consider all costs involved with providing debit card services when determining fees chargeable by issuers. Specifically, the Board should include in the calculation of the fee: network fees, the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; and a reasonable profit.

The Board's proposal also addresses routing requirements. On this issue the Board should adopt Alternative A in implementing the routing requirement. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants.

In conclusion, government imposed price controls do not work and are inappropriate for debit card transactions. Further, there is no requirement or realistic expectation that the savings realized by merchants under this proposal will result in any savings to the consumer. Ultimately, price controls will lead to inefficiencies in the payment system, stifle innovation and improvements, and have a negative impact on consumers. In light of this, I again urge the Board to thoughtfully consider all related costs and a reasonable profit when determining a "reasonable" fee.

Thank you for your consideration in this matter.

Sincerely,

CHRIS CAZAUBON