

From: Security One Federal Credit Union, Pamela Stephens
Subject: Reg II - Debit card Interchange

Comments:

February 18, 2011

Dear Chairman Bernanke:

I am President/CEO of Security One Federal Credit Union (SOFCU), with assets of \$52 million, serving over 9,300 members. Just over 3,100 of our members have checking accounts and 2,500 of them use debit cards as their primary method of payment.

The debit card payment system is poised to undergo major transformation as set forth in the proposed changes to Regulation E mentioned above. I am writing to you because I do not believe these changes were given proper consideration and I urge you to postpone implementation.

The income SOFCU receives from interchange is allocated to the costs associated with offering a debit card program with the goal of at least breaking even. Our costs are rising every day, especially due to card database compromises (data is not properly safeguarded by merchants and we must reissue cards and bear the cost) and fraud losses (merchants do not verify ID of cardholder and we bear the cost). The margins are already thin and any reductions in interchange will make it nearly impossible to offer debit cards without assessing some sort of fee to our members.

I am concerned that the exemption for credit unions under \$10 billion is not viable especially if merchants are able to steer transactions to the network of their choice (away from credit union debit cards). Without enforcement, SOFCU stands to lose over \$215,000 in interchange income and would be forced to increase fees to our members to recoup that loss.

I understand you are seeking input regarding the routing rule alternatives and in response will say that Alternative A would be the most practical and least disruptive to SOFCU.

I respectfully request that the Federal Reserve postpone implementation of any version of these rules until the real impact on consumers, payment card networks, merchants and financial institutions such as credit unions can be determined. This should include the true costs for financial institutions to offer debit cards including fraud prevention and data security.

Thank you for your consideration and please feel free to contact me if you need additional information.

Pamela Stephens

President/CEO
Security One FCU