

From: Arrowhead Credit Union, Elsa Montes
Subject: Reg I I - Debit card Interchange

Comments:

February 19, 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:

February 22, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue NW
Washington, DC 20551

Re: Proposed New Regulation II, Debit Card Interchange Fees and Routing
Docket No. R- 1404

Dear Ms. Johnson:

We are writing to comment on the proposal to regulate debit interchange fees and debit card routing. We are a small credit union in an area in southern California that has been hit hard with high unemployment nearing 15% in our market and one of the highest foreclosure rates. We recently restructured under NCUA guidance and are in a conservatorship status to quickly address financial losses and to recapitalize this credit union.

During the economic downturn, among other changes, most significant was our members and their continued confidence in this credit union that kept us solvent. Our members used their credit union debit card for a bit over 2 million transactions per month for their everyday convenience and bill payments. This represents just under \$1 million per month in interchange income. This income is used to maintain the high technology systems and maintenance, adequate personnel, security and compliance adherence, card issuance and management standards, and for fraud prevention and potential fraud detector programs.

We are petitioning the Fed to review the impact to small issuers such as Arrowhead Credit Union should the interchange fees be lowered. We urge the Fed to use its authority to reinforce the small issuer exemption and ensure that it works as Congress intended. Small issuers will be disadvantaged if the provision on routing and exclusivity that allow merchant to choose how debit card transactions are processed are not implemented properly.

Arrowhead has been a small community credit union since 1949. During the past 24 months, the pressure to keep this institution available for more than 132,000 has already resulted in reductions in work force, branch

closures and elimination of some valuable member programs. The proposed interchange regulation and debit card routing would impact the services we provide and result in further elimination of member services and staff as we could no longer remain competitive.

In unison with our credit union peers, we urge you to reconsider the interchange amendment. It would only benefit the large merchants at the expense of thousands of card issuers like Arrowhead Credit Union and other small financial institutions.

Thank you again for your consideration.

Sincerely,

Steve Becker
Arrowhead Credit Union