

February 18, 2011

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

**RE: Docket No.R-1404 and RIN No. 7100 AD63**

Dear Ms. Johnson:

My name is Debbie Mitchell, and I am the president/CEO of Velocity Credit Union in Austin, Texas, where we proudly serve over 70,000 members with over \$500 million in assets. The purpose of my letter today is to inform you that our Board of Directors and management team are strongly opposed to the Proposed Rule on Debit Card Interchange Fees. We request that the Federal Reserve postpone implementation of the rule at this time.

Between 2009 and 2010, Velocity saw a 21 percent increase in direct expenses for our debit card program. Direct expenses include monthly charges paid to Pulse, member refunds due to fraud, debit card charge-offs, and incentives paid to employees. It does not include indirect overhead allocations for full-time equivalents for our debit card specialist, branch services, operational costs associated with processing and reconciling, and our technology and accounting departments. If Velocity's direct expenses for our debit card program increase by another 21 percent in 2011, and the interchange rates are implemented at the proposed 7 or 12 cents, then Velocity will expect to see a net loss for our debit card program (before overhead allocations) in the tens to hundreds of thousands of dollars. We will have to make up this loss through increased fees so that we can continue to provide this service. How does this help the consumer?

In addition, any version of the rule must consider fraud and data security costs to capture the true cost of providing a debit card program. For check fraud, the law puts responsibility on the entity in the best position to identify and prevent the fraud – financial institutions and merchants accepting the checks. By the time financial institutions see debit card fraud, however, the fraud has already been committed. Merchants are in the best position to prevent fraud, yet they are held harmless and contribute nothing to the costs associated with such fraud even if it is due to their own employees' criminal activities or their lack of compliance with data security requirements. Interchange income helps cover the cost of this ever-increasing area of fraud in the financial services industry.

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Even if these two issues were resolved, however, our greatest fear is that the two-tiered system -- which was provided as a solution for smaller financial institutions like our credit union -- will only drive members *away* from our credit union. Merchants will be incentivized financially to steer consumers from using our debit cards as the higher interchange fee will apply.

We echo what Chairman Bernanke said at a recent hearing regarding the exemption for smaller financial institutions. There is no way to enforce this carve-out, and there is no guarantee that a two-tiered system will be implemented or will work as it was intended. Merchants may reject our members' higher-cost card in favor of a big bank card. As a result, we may no longer be able to offer this service to our members -- putting us at a distinct disadvantage in the marketplace and forcing our members to move to big banks where they will undoubtedly have to pay more fees for all of their services.

If we are not going to let the marketplace decide the price of interchange, then we need to delay implementation of any new rules until all issues have been fully vetted and understood. We urge the Board to withdraw the current proposal and await further guidance from Congress and input from the industry before proceeding further.

Thank you for giving us the opportunity to comment on this very important issue. Ultimately, if the new debit card interchange fees are implemented, there will be no benefit to the consumer, and the smaller banks and credit unions will be harmed. If you have any questions, please do not hesitate to contact me at 512-469-7021. Your decision is critical to the future of our credit union and our members.

Sincerely,



DEBBIE MITCHELL  
President/CEO