



February 18, 2011

Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Ave, NW  
Washington, DC 20551

**Locations:**

*Alcoa*

*Clinton*

*Clinton I-75*

*East Lafollette*

*Farragut*

*Hardin Valley*

*Lafollette*

*Maryville*

*North Knoxville*

*Oak Ridge*

*Roane County*

*Sevierville*

*West Knoxville*

Re: Debit Card Interchange Fees

Dear Respected Members,

Y-12 Federal Credit Union has grave concerns regarding the proposed Regulation II as it is currently written. We are a federally-chartered credit union serving over 70,000 members in East Tennessee and believe this legislation poses significant risk to the consumer by driving their cost for financial services up while subsequently reducing their choice in the marketplace. I ask that you consider this conclusion based upon the simple economic fact that an interchange fee of 7¢ to 12¢ is woefully deficient in comparison to the cost associated with administering a debit card program.

The interchange fees that financial institutions currently receive are used to off-set the cost of administering much of the transactional checking products, especially "free" checking. The loss of revenue due to an interchange rate set too low would most assuredly result in the demise of "free" checking as a monthly charge would be the only way in which to pay for the financial services provided under the expensive transactional account. The end result to the consumer will be increased costs and/or reduced account features.

Moreover, the significant bottom line impact to the credit union as a result of this legislation will place great economic incentive on reducing our most significant cost—employees—in order to compensate for lost revenue not recoverable through new and/or increased fees to our members.

In conclusion, I urge the Federal Reserve to revise the interchange fee to an amount that covers not only the direct costs but the substantial indirect costs associated with administering a payment program such as fraud prevention, fraud resolution and infrastructure and technology development. Failing to do so will result in great economic harm to the consumer and possibly widespread loss of employment at time when jobs are in short supply nationally and locally.

Very Respectfully,

A handwritten signature in black ink, appearing to read "T. Hilton".

Thomas Hilton  
President and CEO