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Regulation II - Debit Card Interchange Fees and Routing [R-1404]

Congratulations to Congress, but only if it was your intention to only reduce costs for the largest retailers while watching banks eliminate free checking accounts and easy access to debit cards. Stockholders of MC and Visa who know how the industry really works would also like to thank the Fed for helping them to effectively double their holdings for nothing by selling on the morning of the announcement and buying back at day's end or next day after price had dropped in half. The only way that changing Interchange will hurt MC and Visa would be if dollar volume drops significantly if your actions cause a deeper recession and spending drops (or banks stop offering debit cards). Here are some of the things that you got wrong... 1. There IS competition with several thousand providers of credit card processing. 2. Most business owners do not see Interchange. Interchange is simply part of the wholesale cost of the processor. 3. The other part of the wholesale cost is the cut that MC, Visa and Discover receive on the volume and transactions. 4. Business owners have ALWAYS had the option to offer a discount for cash or check purchases. Yet, not once has Home Depot or Walgreens passed along a discount to me for paying cash. 5. The prohibition on minimums being set by merchants is for the protection of consumers who do not wish to carry cash. 6. Do you REALLY think merchants will drop prices if their costs are reduced? As it is stores like 7-11 and Walgreens markup some products over 100% and then complain for being charged less than 1.5% on debit cards. 7. When Rewards cards are used, customers average about 50% increase in spending over cash or check use. So, if Rewards cards disappear over this, some retailers could lose approx 30% in sales. So, in conclusion, Walgreens, 7-11, Wal-Mart and other large retailers win. Processors who do not offer pricing based on Interchange win (their profit will increase if their wholesale cost decrease and pricing remains the same). If volume remains constant, MC and Visa will remain where they are. If Banks decide they cannot profit from debit cards, they will stop offering them. Then economy including the card brands will slump. 85-95% of merchants will see no

change in costs as most merchants do not have Interchange Plus Pricing (true costs plus a set profit margin for all 500 plus Interchange categories). Most only see Qualified, Mid-Qualified and Non-Qualified rates applied to all categories. The clear losers in the scenario are consumers. Their prices will remain constant, millions will lose free checking, many will lose debit cards. Also, please realize if people have to carry cash and businesses are taking in more cash, robberies will increase. I cautioned in my book against tampering with interchange and my website contains a whitepaper by Todd Zywicki has more warnings. If Congress is so intent to start price fixing, how about starting with gas, food and prescriptions. If this cap is enacted and my warnings come true, November of 2012 cannot come soon enough.