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Subject: Reg I I - Debit card Interchange

Comments:

Date: Jan 04, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing

Document ID: R-1404

Document Version: 1

Release Date: 12/16/2010

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To the Honorable Men and Women of Congress: I'd like to comment on the proposal to cap debit card interchange fees as directed in Section 920 of the Electronic Fund Transfer Act, added by Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. My comments are not directed to the Fed - it will likely do simply as directed by the Dodd-Frank Act since it never really wanted this job to begin with. Rather, my comments are directed at the men and women of Congress that passed the Act in the first place. I have two main points: 1) **CONSUMERS WILL NOT BENEFIT.** While the proposed rules might be spun to the public as consumer driven, consumers are unlikely to derive any substantive benefit. Merchants are unlikely to reflect lower interchange fees in lower prices at the register as the delta is small enough that few consumers would notice or care. In addition, the totality of banking system fees are akin to a water balloon. Squeeze down in one area, and the balloon just bulges out in another. The lost interchange fees - roughly \$50 per year per consumer based on a 32c reduction in the average interchange multiplied across 12-15 debit POS transactions per year per - will be offset through annual debit card fees, higher ATM network charges, etc. A cap on interchange fees is a pure profit transfer initially from banks to merchants, but with consumers ultimately picking up the total tab through (higher) banking fees on other services. 2) **GOVERNMENT INTERVENTION IN THE MARKET PRICING FOR INTERCHANGE SERVICES IS A SLIPPERY SLOPE.** Section 920 requires a government agency, the Federal Reserve, to set strict and absolute prices for a previously arms-length negotiated commercial service. Once this gets passed and implemented, how far does this new precedent reach? How long before Congress empowers the FAA to tell United Airlines and Delta that the "reasonable and proportional" cost for checking a piece of luggage is much less than \$25? How long before Congress empowers the Department of Transportation to tell Avis and Hertz that the "reasonable and proportional" cost of a gallon of gasoline is

nowhere near the \$5-\$7 per gallon they typically charge for refueling? How long before Congress empowers the DEA to tell Starbucks and Seattle's Best that the "reasonable and proportional" cost of another shot of espresso is significantly less than the 55c they typically charge. How long before Congress empowers the FTC to tell Verizon and AT&T that the price they charge consumers for that incremental minute of communication or that incremental text message is near zero, rather than the 10c-25c in many plans? How long before Congress empowers the Bureau of Alcohol, Tobacco, and Firearms to direct stadium owners to reduce the price of beer at a professional football game from \$7 per bottle to a much lower level that reflects the true "reasonable and proportional" cost? Where does it stop? Does it ever stop once it starts? Our system of capitalism and market pricing is fully capable of driving down prices for debit interchange. Section 920, without setting strict and absolute prices, provides the mechanisms for making the market for interchange fees much more competitive by abolishing network exclusivity, permitting selective routing, and allowing merchants to offer incentives for the use of cheaper payment systems and discounts for cash transactions. According to Adam Smith, in a free market economy the market hand is INVISIBLE. There is no need to establish such a risky precedent of direct government intervention and price controls. In summary, no net consumer benefit and a dangerous precedent for commercial enterprises across all sectors of the economy. How can this be good legislation? Apply the rules prohibiting network exclusivity and permit selecting routing but don't empower the Fed to set strict and absolute pricing for debit interchange. In short, let our free market economy work. C C