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Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:

The proposed debit card interchange caps place unreasonable expectations on financial institutions. By capping the fee at 7 to 12 cents, the Federal Reserve has failed to deal with three specific costs. First, the cost of fraud mitigation and management has not been considered. Previously, costs for fraud were borne by merchants. If a customer wrote a bad check, the merchant paid the penalty and was responsible for collecting the missing funds. Now, with the advent of debit cards and electronic payment systems, the merchant never has to worry if the customer is fraudulent. All costs are borne by the financial institution. In exchange for this removal of risk, merchants agreed to an interchange fee with financial institutions and payment networks. Second, operating an electronic payment platform has fixed operating expenses that are not considered. By requiring multiple networks, the Federal Reserve rewards large institutions with great economies of scale, while hurting smaller institutions tremendously. That seems not to be in the spirit of the legislation. Third, the Federal Reserve appears not to have considered the consequences of its decision. In Canada, where debit interchange has been capped, the costs of operating a chequing account are borne by the users. Each transaction has a specific fee: 50 cents for a withdrawal, 50 cents for a debit purchase, 70 cents to write a cheque. To avoid these per transaction fees, a consumer need only meet a minimum balance or pay a sizable monthly fee. The effect of this is to punish the less affluent consumers: those most likely to need fair banking services are the ones who must pay more fees. Several banks are already planning this sort of conversion. Bank of America, Chase, Citibank, Wells Fargo, all no longer offer "free checking". Debit interchange is an important piece to making free checking available for all Americans. Limiting that puts more burden on consumers, all for the benefit of shareholders of retail giants. Please reconsider the artificiality of the cap, or consider setting the bar higher. Our banking system is still the most consumer-friendly on the planet; let's keep it that way.

Thank you,

Andrew Vahrenkamp
Clackamas Federal Credit Union