FORT KNOX FEDERAL CREDIT UNION

WILLIAM J. RISSEL
PRESIDENT/CEO

CAROLYN F. DRAKE
EXECUTIVE VICE PRESIDENT

RAYMOND SPRINGSTEEN
SENIOR VICE PRESIDENT

28 December 2010

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Ave, N.W.
Washington, DC 20551

Re: Regulation II, Docket #R-1404

Dear Ms. Johnson:

This is our comment letter is in response to referenced regulation and docket number.

Providing free debit card service is an extremely important product we provide to our members of average to below average means. The proposed interchange cap(s) and other matters associated with this Board proposal will result in severely restricting cards to members of above average means, charging per item usage, annual and other fees necessary to provide this service. The proposed cap will not adequately cover actual costs and losses. The proposed Board proposal will result in the passage of costs to those that can least afford them.

As an institution way under $10 Billion in assets, we believed that we would not be subject to this legislation and that the Board would need to establish two interchange tiers. We acknowledge the difficulty of doing this, but that's what the legislation requires. We understand the issues a two-tier system would involve and that increased expense for creating two tiers would likely be passed to issuers. Nonetheless, we advocate this process. If a two-tiered system is not established to meet the intent of the law, then there will surely be severe, immediate unintended consequences which will be borne by those that can't afford them.

Our financial institution's income from interchange fees approaches nearly 20% of annual net income. This income is used to fund loans at very low rates and to provide free to near free products and services to our members, some 75,000 strong as of this writing. Under this proposal, this income will shift to merchants who will distribute it to their stockholders. This proposal exacerbates a serious problem we have today; that is, wealth in the pockets of the few while the masses struggle. Moreover, we will be forced

P. O. BOX 900 RADCLIFF, KENTUCKY 40159-0900
PHONE (502) 942-0254 • FAX (270) 351-0258

to find other revenue sources which will most likely lead to higher loan rates and costs/higher costs for other products and services.

We strongly recommend that the Fed focus on liability for fraud. At present, Regulation E liability is limited to the consumer and normally at the $50 level. Our product provider, Visa, has required that we waive this fee as part of their operating agreement with us. As part of this revamp, the Fed could enact stiffer regulations on merchants and give card users some responsibility for the use of their card. Fewer losses will assist financial institutions as they struggle to absorb a reduction in interchange. Beyond this, fewer losses drive costs down in the entire system.

In sum, financial institutions under $10B in assets should not be subject to the proposed capping of the debit card interchange fee at $.12. This pricing is untenable and will result in the passage of increased costs to our members in terms of higher loan rates and the implementation or increasing of fees on heretofore free or very low cost products and services. As a not-for-profit financial institution, losses incurred with one product or service must be recovered from another. We cannot afford to subsidize our debit card line. The Fed must expect a rash of unintended consequences from this legislation if enacted as proposed. With the low proposed cap, there will be unintended second and third order effects.

Thank you for the opportunity to comment on this important Board regulatory proposal.

Sincerely,

William J. Rissel
President/CEO

cc:

National Association of Federal Credit Unions
Credit Union National Association
Defense Credit Union Council
Kentucky Credit Union League