EAGLE
COMMUNITY
CREDIT UNION

February 14, 2011

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1404 and RIN No. 7100 AD63

I am writing you today to express my grave concerns regarding the debit card provisions of the Dodd-Frank Act (Section 1075) that strip away "free market" influences on debit card transaction prices (interchange) and replace these free market influences with fixed pricing as determined by the Federal Reserve. I fear that this governmental disruption of the most basic of economic concepts will have serious repercussions on consumers – not only in regards to an immediate rise in costs for financial services but also from the disincentive for innovation within this payment system.

<u>Retailers realize direct value from consumer usage of debit cards</u>. Most notably, retailers receive almost immediate credit for transactions and are exposed to virtually no fraud risk. Although check processing is cheaper, from the retailer's perspective, it is decidedly slower and the retailer is exposed to significant fraud risks. Retailers reap numerous indirect benefits as well. For example, transactions at the cash register performed via debit cards are faster than transactions settled by check writing and they allow the retailer to reduce the need to handle large amounts of cash.

<u>Debit card transaction processing is not free</u>. Debit card issuers incur several direct and indirect costs producing and managing their debit card programs. Some of these direct costs include: verifying the consumer's qualifications to be issued a card; production of the card; mailing of the card; card activation systems; fraud prevention, fraud detection, fraud investigation, fraud losses; transaction processing; account record keeping and statement production; as well as staff time devoted to these functions. There are also a wide range of indirect costs to include training, data transmission lines, maintenance repairs, supplies, hardware depreciation, audit and legal services just to name a few. In addition to the costs incurred by the card issuer there are a variety of costs associated with building and maintaining the networks that facilitate the transmission of transactions between the retailer and the consumer's financial institution.

<u>The consumer is, and will continue to, pay for interchange expenses</u>. Retailers have already built interchange costs into their prices today – clearly, the consumer is paying the interchange expense for the privilege of using their debit cards. Retailers claim that regulated interchange will benefit consumers via better prices. Really? I believe it would take an especially rosy pair of glasses to actually believe that the retailers are going to lower their prices. Is the Federal Reserve going to regulate this as well?

<u>The consumer will pay for financial services previously offered for free</u>. Federal Reserve has proposed a fixed price of $0.12 per transaction. This represents a reduction of 73% overall for credit unions and a reduction of over 90% - **that equates to nearly 50% of Net Income in 2010** - for Eagle Community Credit Union. This exposure to the expense of operating a debit card program without compensating revenues will have a serious, adverse impact on the financial health of our organization. We will be forced to

recoup these costs from some quarter or discontinue the provision of debit cards altogether. In essence, consumers will either pay (**again**) for the interchange expenses or suffer significant inconvenience. In today's world, inconvenience is not well tolerated. Additionally, I suspect that consumers will not allow the generation of enough revenue solely from debit card users to offset the costs of a debit card program and financial institutions will be forced to "lean" on all account holders.

All consumers get screwed! With no noticeable reduction in prices at the cash register coupled with increased or new fees levied by financial institutions, **the consumer ultimately pays twice!** Tragically, the only entity advantaged by governmental control of interchange is the retailer. Was this the intent of the legislation?

Extending an exemption to card issuers with less than $10 billion in assets will only be sustainable for the short term. Ultimately, retailers will rightfully yield to their profit motivation and discriminate against cards issued by smaller financial institutions – inconveniencing consumers and threatening the reputation and financial well being of these smaller financial institutions. In essence, smaller financial institutions will become victims of a free market that has been artificially and adversely influenced by government price fixing.

Eagle Community Credit Union has 66 employees, is headquartered in Lake Forest, CA, and serves nearly 24,000 members throughout Orange County via branches in Lake Forest, Laguna Nigel, Garden Grove, Placentia, Santa Ana and City of Industry.

I implore you, for the sake of the nation's consumers, work with legislative leaders to return this interchange issue to the forum best equipped to recognize and equitably incorporate all motivations and needs – the free marketplace. In the alternative, request a delay of the effective date of the final rulemaking for a period of two years to allow for a more thorough analysis of the impacts of this amendment, the conduct of hearings to gain the perspectives of all stakeholders, and the development of regulations that do not disadvantage consumers and threaten the health of credit unions and other financial institutions.

William E. Birnie
President & Chief Executive Officer