TechCU TECHNOLOGY CREDIT UNION

February 14, 2011

Barbara B. Kamm
President and CEO

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

Subject: Regulation II – Debit Card Interchange Fees and Routing

Dear Ms. Johnson:

My credit union, representing 74,000 consumers in the San Francisco Bay Area, is very concerned with the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. The proposed debit interchange rates especially concern us because the establishment and maintenance of a two-tiered structure cannot be assured. We strongly believe the debit provisions are bad policy for consumers, financial institutions and the economy.

While we understand that the intent of the legislation is to reduce costs for merchants who would then presumably transfer the savings to consumers, the unintended consequences will be harmful for those very consumers, not to mention for financial institutions and their employees.

The legislation includes no requirement that cost savings be passed from merchants to consumers, and retailers have made no pretense of agreeing to do so. Instead, thousands of financial institutions will find that their debit interchange income is significantly reduced. This income not only supports the infrastructure that we have put in place to market, sell, handle, and process debit cards, but it pays for the ever-increasing level of fraud and the defensive fraud detection systems we must employ.

While my credit union falls below the $10 billion asset level (above which this ruling is supposed to apply) we believe we will nevertheless be impacted because of the difficulties inherent in a two-tier system. While Visa is currently considering a two-tier system, we believe merchants will have no pretense about using all methods at their disposal to drive down exempted institution interchange to the same level as regulated rates for banks with more than $10 billion in assets. They will do this by driving consumers to use debit cards issued by the less expensive tier – those financial institutions larger than $10 billion – leaving community banks and most credit unions to face even more erosion in their income and possibly in their customer base, as consumers search for the one-stop shop provided by the larger financial institution.

If the Debit Interchange Fee Amendment prevails, we estimate our credit union will lose 57 percent of our current interchange income, or about $1.5 million. This represents 15.3% percent of total estimated noninterest income on an annual basis, a loss that will further impact our earnings, which have already been negatively affected by low yields, tiny margins, weak loan demand, and charge-offs due to the economic downturn. Such a loss will affect our employees and our members, too.

As a credit union, we try to provide as many free, or low-cost, services to our members as possible. That will have to be re-evaluated. Already, banks are moving to eliminate free checking accounts and increase fees to replace their lost interchange income. Can credit unions be far behind?

We urge you to reverse the Debit Interchange Fee Amendment and let the free and competitive market determine the best price for this and all of our services.

Sincerely,

Barbara B. Kamm
President & CEO
Technology Credit Union

Cc: Bill Cheney, CUNA
Diana Dykstra, California Credit Union League