February 21, 2011

Louise L. Roseman
Director, Division of Reserve Bank Operations
and Payments Systems
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1404 (Debit Card Interchange Fees and Routing)

Dear Ms. Roseman:

On behalf of RaceTrac Petroleum, our more than 5,000 employees in the southeast and Texas and the over 4.5 million guests that we serve weekly, we would like to thank the Federal Reserve Board for its work to date in establishing the rules that will become Regulation II. RaceTrac is a family owned, privately held company in the very competitive retail fueling and convenience store market. Our ability to know our costs with reasonable certainty and to manage them in a competitive landscape in the debit/credit arena is essential to our business model of providing fuel to our guests at the lowest possible retail sales price. Just as when the wholesale price of fuel rises, when credit and debit costs rise both we and our competition are forced to pass this through in increased prices. Since 2005, credit and debit fees have comprised our second largest cost center; only Payroll is larger.

Debit cards are ubiquitous in today's retail marketplace. Even though the technology costs for these transactions continue to decrease, the fees retailers pay for debit cards (both on a percentage and net cost basis) have increased substantially. As the Board has discovered, these increases have been compounded by the lack of routing options available to merchants when issuers strike exclusive network deals and pre-empt our ability to route transactions to the least costly network. We are pleased with the work the Board has completed and would like to provide comments on several items where feedback was requested.

Reasonable and proportional interchange transaction fees.
We believe that Alternative 1 ($0.07 safe harbor, $0.12 cap) aligns best with the directive of the law to limit fees to costs directly attributable to authorization, clearing and settlement of a transaction. The safe harbor provides incentives for issuers to process in a cost-efficient manner, allowing margins to be maximized when costs are reduced. For issuers whose costs exceed this safe harbor threshold, the Board has provided a mechanism in the form of the $0.12 cap to allow issuers to collect additional reimbursements by demonstrating their additional costs.

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While we are hopeful that there will be greater efficiencies and in turn, cost reductions in network switch fees in the future, we do not believe these should be included as part of the issuer's costs. These network fees are not related to specific issuer's authorization, clearing and settlement costs, but rather these are per transaction costs determined by a third party, which could be manipulated to provide additional compensation to issuers. We support the Board's recommendation to limit allowable costs and consider the functional similarities between checks and debit card transactions when determining costs for consideration.

Limitations on payment card restrictions.
We believe Alternative B (two unaffiliated networks per method of authorization) is the most appropriate way to ensure competition among networks, and we recommend the Board move towards this solution as quickly as possible. Alternative A (requiring at least two unaffiliated networks) would be a good interim step, but does not solve a problem we see in the marketplace already today. There are several pin-debit networks (unaffiliated with the major signature-debit networks) that offer issuers financial incentives to sign exclusive deals for pin-debit routing. These incentives are funded by additional interchange fees charged to merchants (examples: Star's "All STAR" rate, NYCE's "Premier Issuer"). These relationships would be allowed to continue under Alternative A, not adding competition or providing routing options to merchants, as is the law's intent.

The Board requested comments on whether these rules should apply to point-of-sale networks alone or also include ATM transaction routing. We believe that increased competition in the payment industry helps drive cost efficiencies, therefore RaceTrac supports extending the rules governing the network-exclusivity prohibitions and routing provisions to ATM transactions. It should be noted that "signature" ATM transactions are not allowed by issuers; requiring only one pin debit network under Alternative A does not alleviate network exclusivity concerns. We believe this further supports Alternative B, requiring at least two networks per method of authorization.

Fraud prevention cost reimbursement.
RaceTrac does not believe that the Board should be obligated to adopt prescriptive, technology-specific standards, but rather should promote the discovery of efficient and cost-effective methods by issuers and merchants to remove fraud from the payment system. When considering a reimbursement to issuers for implementing fraud reduction programs, we urge the Board to consider not just the issuer's costs for such programs, but any costs the merchant community may also be required to bear to support fraud reductions. We would further encourage the Board to ensure that decreases in actual fraud losses realized by fraud reduction programs exceed the cost of implementation. This kind of cost-benefit analysis would promote efficient deployment of capital by issuers (and, in turn, the cost of reimbursements by merchants). Data collected by the Board indicates that 57% of fraud losses were borne by issuers, with merchants bearing the remaining 43%. The proposed rules support reimbursements to issuers for fraud, but not to merchants who bear both fraud costs and expenditures for reducing the issuer's fraud losses.

Consistent with the Board's survey results, RaceTrac's pin-debit fraud losses are significantly lower when compared to signature-debit and credit card products. RaceTrac supports moves towards transactions and payment products that have greater authentication requirements. From the Board's findings, not only do issuers enjoy a lower incidence of fraud on pin-debit transactions, their costs for authorization, clearing and settlement of these transactions are favorable compared to signature debit.

We have reviewed the proposal submitted to the Board by Jeffrey Shinder and Todd Anderson on January 20, 2011 and support the recommendations on the eligibility, calculation, application and prohibitions for Fraud Adjustment Standards.

Other comments.

RaceTrac recognizes that the Board has received numerous comments from excluded financial institutions expressing their concern that the exemptions will not be extended to them through the network's pricing mechanisms. We believe it is important to note that Interlink, the largest pin-debit network, announced in early January its plan to support pricing tiers to ensure the exemption provisions for the excluded issuers with less than $10 Billion in assets.[1] Contrary to the comments submitted by several excluded issuers, merchants are not able to select their rates (as a gasoline and convenience store, we are not able to select the grocery rate simply because it is less expensive). It appears that networks intend to create pricing schedules and acceptance/issuance "rules" supporting two-tiers for exempt and non-exempt issuers which will apply to all parties that elect to conduct business with that particular network.

We would like to thank you and your team again for your hard work preparing the proposed rules that were issued in December. Please do not hesitate to contact us by phone at 770-431-7600 for additional comments or clarifications that we may provide.

Sincerely,

Max Lenker
President

Robert J. Dumbacher
Chief Financial Officer

Karla Ahlert
Treasurer

Kara Kazazean
Director of Payment Systems

[1] http://durbin.senate.gov/showRelease.cfm?releaseId=330412