



National Association of Federal Credit Unions
3138 10th Street North • Arlington, Virginia • 22201-2149
703-522-4770 • 800-336-4644 • 703-522-0594

B. Dan Berger
Executive Vice President
Government Affairs

November 19, 2010

Ms. Louise Roseman
Director
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve
20th and Constitution, NW
Washington, DC 20551

Dear Ms. Roseman:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCU), I am writing today to follow up with you regarding interchange fee regulation. As you are aware, NAFCU is concerned that the directive in the Dodd-Frank Wall Street Reform Act to cap interchange fees for large institutions will also impact smaller institutions. Specifically, the lower, price capped fee for large institutions may very well become the industry standard for all debit card issuers.

NAFCU appreciates your willingness to share the draft version of the issuer survey for NAFCU's input and we closely reviewed the surveys the Board sent out to issuers, the card networks and others. We asked several of our members to fill out the same survey that the Board sent to card issuers with more than \$10 billion in assets. This process was informal and consequently, the figures are not statistically significant as a relatively small number of our member credit unions filled out the survey. Nonetheless, there are some common threads present throughout the data that was reported.

- Current interchange fees are not unreasonably high. Once all of the relevant costs required to operate a debit card program are factored together, the interchange fee that card issuers receive is fair and reasonable. The Board's survey did an admirable job of collecting data on direct costs of operating a program. Those costs, along with easy to identify data such as fraud losses, alone warrant current interchange fee rates. Other factors, such as attracting and maintaining customers, may be difficult to quantify but they are necessary – and also costly – elements required to operate a debit card program. Once factors such as this are considered, not to mention the value the product provides to both merchants and consumers, it is clear that current interchange fees are fair.

E-mail: dberger@nafcu.org • **Web site:** www.nafcu.org

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- The costs of fraud and anti-fraud measures are substantial. Thieves are utilizing increasingly sophisticated tactics to access consumers' personal financial information. These tactics, in turn, require sophisticated counter-measures. Combating this type of activity inevitably requires financial institutions to react to whatever latest method criminals have discovered to commit fraud. The result is that financial institutions, at best, can merely manage and attempt to limit fraud losses. Issuers are left with significant direct losses and substantial costs related to anti-fraud measures.
- Regulation in this area is unlikely to benefit consumers. The survey data obviously does not broach this issue; however several of NAFCU's members have indicated that, should the Board's interchange fee become the industry standard, they will examine imposing new checking account fees. There have already been news reports of some institutions taking steps to eliminate low dollar accounts that are not profitable. Reduced interchange fees will only accelerate these and other practices that will provide no real benefit to consumers.

NAFCU would like to reiterate our concern that the Board's interchange fee will likely become the industry standard for all debit card issuers regardless of size. An artificially low interchange rate will disproportionately impact small institutions and will, inevitably, lead to less competition. I understand that the statute directs the Board to set an interchange fee for institutions with more than \$10 billion in assets. I also understand that the Board has little control over the market's reaction after the rule is published. However, the Board can and should consider the likely consequences of the rule during this stage in the process. Indeed, given that the Federal Reserve Board is, essentially, the chief regulator of the U.S. economy, it is sound policy to consider the likely consequences of the regulations is promulgates. With this in mind, NAFCU respectfully requests that the Board use its authority and whatever flexibility exists within the statute, to consider all of the costs associated with operating a debit card program as well as all of the likely consequences of its actions.

NAFCU appreciates this opportunity to share its concerns. Given the significance of this issue, I would again like to request the opportunity to meet with you regarding this matter. Please have your office contact me or Dillon Shea, NAFCU's Associate Director of Regulatory Affairs, at dshea@nafcu.org or by telephone at 703-842-2212 and we will arrange accordingly.

Sincerely,



Dan Berger
Executive Vice President, Government Affairs