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## United States Senate

WASHINGTON, DC 20510

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AD HOC SUBCOMMITTEE ON  
CONTRACTING OVERSIGHT,  
CHAIRMAN

December 17, 2010

Ben Bernanke  
Chairman  
Federal Reserve Board  
20th Street & Constitution Avenue, NW  
Washington, DC 20551

Dear Mr. Chairman:

I am writing in reference to the proposed rules regarding debit card interchange fees that the Board released yesterday. I look forward to reviewing them in detail. However, I would like to express my broad concern with the new rules.

I understand that the Federal Reserve is operating under strict instructions from Congress when setting rules on debit interchange fees (those charged to businesses when their customers use debit cards to pay for goods or services). Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires that the Federal Reserve issue regulations to ensure that the cost of debit transactions is "reasonable and proportional to the cost incurred by the issuer." The legislation explicitly prohibits the Federal Reserve from considering any overhead costs, except for those related to the authorization, clearance, and settlement of the transaction.

Like several of my colleagues, I have concerns about these instructions, and I voted against the amendment which added Section 1075 to the Dodd-Frank Act. I am also worried that the language in the Dodd-Frank Act is too narrow and that rules based on those instructions will not allow debit card issuers to recoup the full costs of offering cards to consumers. Issuers incur expenses for staff and facilities to handle customer service and dispute management, for processing equipment, for the manufacture of cards, and for other expenses which Section 1075 explicitly excludes from consideration in the cost of a transaction. Card holders value the convenience and security of debit cards, but issuers may cease to offer debit cards if regulations require them to operate card programs at a loss. At the same time, there is no guarantee that retailers will pass savings from lower interchange fees on to the consumer.

I know that Section 1075 is intended to address the concerns of retailers, including many small businesses, who have faced increasing costs as a result of interchange fees. I acknowledge and respect these concerns, especially because the costs are generated by consumers, but are largely opaque to the consumers themselves. However, there are other ways of addressing disputes over interchange fees. Potential solutions could emphasize transparency and consumer choice, rather than setting interchange rates directly. I believe it would be better to study and pursue such options before issuing regulations that may have unintended consequences for consumers.

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In light of these concerns, I hope the Federal Reserve will do everything it can, within the law, to ensure that the regulations on interchange fees are fair and do not ultimately harm consumers.

Sincerely,

A handwritten signature in blue ink that reads "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a large, rounded script, and the last name "McCaskill" written in a similar but slightly more compact style.

Claire McCaskill  
United States Senator