

From: Star One Credit Union, Carol Safberg
Subject: Reg I I - Debit card Interchange

Comments:

January 26, 2011

Federal Reserve Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Federal Reserve Board:

Star One Credit Union is very concerned with the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. We believe that as drafted, the reduction of debit interchange will negatively impact all Financial Institutions and consumers (in our case, as a financial cooperative, our member owners). Key points we wish to bring to your attention to consider include: The proposal does not include specific provisions to enforce the small issuer exemption. We ask that the Fed reinforce this exemption to ensure that current interchange levels are maintained for credit unions under \$10 billion in assets. Reinforcement of this provision by the Fed will support that the exemption works as Congress intended. The fee cap alternatives presented in the proposal are too narrow and do not consider costly expense of operating a debit card program, including the cost of fraud prevention tools and actual fraud losses. For example, in the case of our Credit Union, our year to date interchange income for 2010 was \$1,345,706; however, with the expected reduction of 70% this would be reduced to \$403,712. If this cap were enforced, after subtracting debit card program expenses from the reduced income level of \$403,712, the program would have realized a net annual loss of -\$700,582 for 2010. Such operating costs would need to be passed along to consumers (in our case, our members) likely in the form of fees. We hope that the Fed considers the requirement of the chip card and its appropriate terminals at merchant locations if the Fed considers the Technology-Specific Approach by identifying "paradigm -shifting" technologies as it has been proven to drastically reduce card fraud. In our case, even though Star One Credit Union is currently exempt from this provision, we are concerned that this will ultimately impact all Financial Institutions regardless of size. The proposed debit interchange rates concern us greatly, especially if the establishment and maintenance of a two-tiered structure cannot be assured. We urge the Fed to consider "Alternative 2", which would allow a \$0.12 cap to interchange on any debit transaction. Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity (which allow merchants to choose how debit card transactions are processed) are not implemented properly. We therefore urge the Fed to adopt routing "Alternative A", which would only require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our

members. Thank you in advance for your consideration.

Sincerely,

Carol Safberg, EVP Operations/COO