

From: Edward Schaffer
Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Dear Chairman Bernanke and Members of the Federal Reserve Board: The purpose of this letter is to voice my concern over the proposal of the Federal Reserve to limit debit card transactions to 7-12 cents per transaction. While I understand that Senator Durbin's intention with this specific component of the Dodd-Frank Bill is to benefit retailers and consumers at the expense of the banks and transaction processors, it is my belief that this legislation will have negative unintended consequences for the consumer. From my understanding of this proposal there is also no explanation, nor guarantee as to how the savings created for the retailer will be passed along to the consumer. Listed below are the ways that I believe the proposed debit interchange fees will adversely impact customers: 1) This regulation and proposed fee cap will reduce bank revenue at a time when they still have a strong need for consistent cash flows, as well as strong capital reserve levels. 2) These reduced revenue flows are likely to lead to new costs to the consumer for current free banking amenities such as checking, online access, or bill pay services. New annual or monthly charges could also be added to offset revenue losses from an interchange cap. Also, lower capital reserves and free cash for banks could continue to hamper lending, and expand to broader segments of the market, such as slowing the recovery in the housing market. 3) This amendment creates a moral hazard, as to what role the government should play in limiting the ability of a corporation or a business to generate revenue (Visa, Mastercard, JP Morgan, Bank of America, etc). 4) Debit card transactions, but not credit card transactions are covered in this law, which could potentially create disproportionate competitive advantages in the industry between banks and card issuers. 5) There is no guarantee that transaction card savings will be passed along to consumers. 6) The cloud of uncertainty is overhanging financial stocks such as American Express, Visa, and Mastercard. 7) The fees proposed by the Federal Reserve are extremely aggressive, at 90% below the current average transaction. There is no explanation as to why such draconian cap is being placed as part of this legislation. Overall, it is my belief

that this regulation will be a net negative for consumers. Hopefully, this legislation will be repealed as part by the new Congress. However, should this law go into effect, hopefully the Federal Reserve will seek to strike the best balance of establishing reasonable fee limits for debit transactions that will serve to benefit the customers, as opposed to pandering to the populist rhetoric and regulations of limiting banking revenue. Sincerely, Edward Schaffer