From: Marc McKellar

Subject: Reg I I - Debit card Interchange

Comments:

February 1, 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:

My credit union is very concerned with the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. The Fed should implement reasonable interchange regulations that will allow small issuers to continue to be protected from lower interchange fees. The proposed regulation does not take these issues into consideration: Credit unions are not protected against fraud as a result of poor practices by merchant handling debit cards. Once the cards are compromised, the merchant has no responsibility to the customer or CU beyond notifying the CU of the breach. The CU at their own expense must notify their members of the compromise and at their own expense replace the plastics to prevent fraud. This is expensive and a direct expense off the bottom line. Additionally, CU's must bear the expense prior to meeting their insurance deductible for fraudulent purchases and CU's must pay insurance premiums to cover losses beyond the deductible. The income generated from debit card interchange fees offset the expenses for handling the debit card programs. If the regulation were to be passed at proposed, it would have an immediate and direct impact on credit union members. Initially, the CU's would try to develop new forms of income through fees to mitigate the fraud risk and offset the loss of revenue. Once the fraud and compromised card expenses begin to ramp up, the CU's may consider reducing the number of debit cards or eliminate the debit card program. Additionally, professional full time and part-time employment will be reduced in the card service departments throughout the United States. On the opposite side of this argument the CU's do not hear that the merchants will participate in the fraud risk or claim they will reimburse the CU's for their losses associated with poor information technology practices and management that results in fraud or compromised accounts. The merchants do not have an increased cost basis therefore the entire debit card interchange revenue would be a windfall to merchants. We do not expect merchants to create new jobs, but realize the income for their stockholders. Simply put, with this proposal the merchants do not have any associated risk, but reap the full financial benefits of a payments system which was created by a mutually beneficial agreement between the merchants and CU's. Currently, the debit card programs are a consumer friendly payment system. This proposed regulation provides a benefit to the merchants without any relief to the CU's addressing the continued risk and expense to manage the program. The Federal Reserve board should carefully review all aspects of the proposed regulation and consider the long term adverse impact it would have on CU members.

Sincerely,

Marc McKellar