FINANCIAL CENTER™
Finance Center Federal Credit Union

7101 East 56th Street
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January 24, 2011

Jennifer J Johnson
Secretary, Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW
Washington, DC 20551

Dear Ms. Johnson:

Finance Center Federal Credit is a community chartered credit union located in Indianapolis, IN. We currently serve over 42,000 members and respectfully submit our feedback to the proposed Regulation II - Debit Card Interchange Fees and Routing [R-1404].

The feedback is broken down into twelve sections covering various aspects of the prosed regulation. We appreciate your time and urge the Board to consider our concerns to protect small issuers like our institution as Congress intended.

Thank you for your consideration.

Sincerely,

Will C. Hord

William C. Hord
AVP – Compliance, Vendor & Project Management

Attachment: Feedback on Regulation II - Debit Card Interchange Fees and Routing [R-1404]

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ATTACHMENT – Feedback on Regulation II - Debit Card Interchange Fees and Routing [R-1404]

1. The proposal seeks comments on two alternatives for setting the interchange fee. Alternative one, with a safe harbor of seven cents and a maximum fee of 12 cents per transaction and alternative two, which would simply allow a fee up to 12 cents per transaction:

    It is not reasonable for our credit union to effectively offer a debit card program at 12 cents per transaction, let alone a safe harbor of seven cents. The cost of a card program encompasses many more areas of expense than those being considered in the proposed rule. Those are but not limited to: employee cost, charge back, fraudulent activity, postage, processing, plastic acquisition/production, and insurance to name a few. Our current debit card programs will most certainly become increasing more costly for our members and have to change, be diminished or some eliminated altogether if this regulation is passed. This will have a detrimental impact on our membership and the overall costs they will pay associated with these programs.

2. Related to twelve cents per transaction covering our institution's costs for processing a debit transaction:

    It will not because the cost of a card program encompasses many more areas of expense than just authorization, clearance and settlement costs being considered in the proposed regulation. Those are but not limited to: employee cost, charge back, fraudulent activity, postage, processing, plastic acquisition/production, and insurance. The entire cost of a program has to be determined to truly indicate the expense of offering a product not just certain aspects as dictated by the proposed rule.

3. The Board is considering what other costs, besides authorization, clearance and settlement costs should be included in the allowable interchange fee:

    We believe other costs should be included such as but not limited to:

    i. Employee cost
    ii. Charge back
    iii. Fraudulent activity
    iv. Fraud detection & risk management
    v. Postage
    vi. Processing

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vii. Plastic acquisition/production
viii. Insurance
ix. Network maintenance (Merchant, Processor, and Issuer)
x. Card file database

4. Related to the statement and feedback above, criteria we think might be helpful in determining which costs should be allowed:

    All costs associated with maintaining a debit card program should be considered when determining any per transaction cap. Creation of a uniform document for issuers to complete would assist in the data gathering efforts required to truly understand the average costs associated with debit card programs.

5. The proposal contemplates two alternatives for permitting a fraud adjustment to the interchange rate. The first would require the Board to determine which anti-fraud technologies are sufficiently useful to justify an adjustment and would permit an adjustment only for those technologies. The second is more flexible, permitting an adjustment for reasonably necessary measures to maintain an effective fraud-prevention program:

    Option 2 would certainly allow additional flexibility due to the fact that fraud and necessary prevention measures are different almost every time depending on the nature and scale of the fraud. One aspect would be to create a system where the majority of the fraud burden would belong to the entity that was responsible for the activity such as data breaches at merchants and processors.

6. The Board may adopt technology-specific standards:

    Because of our size, we have to rely upon our Network provider to develop and maintain the most effective technology-specific standards. Therefore we do not feel we are in a position to provide adequate information related to this question and feel the Board should seek to obtain this information directly from Network providers.

7. If the Board does adopt technology-specific standards, it will have to assess the likely effectiveness of each fraud-prevention technology and its cost effectiveness:

    The Board will have to work closely with the Network providers to determine the effectiveness and its cost benefits. However, solicitation of insurance providers (bond coverage) should be considered to provide assistance in determining amounts paid in claims and the types of claims processed in addition to input from

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financial institutions based upon the losses incurred that may be attributed to the deductible of the coverage.

8. If the Board adopts non-prescriptive standards it will need a framework to determine whether a fraud-prevention activity is effective at reducing fraud and is cost-effective:

    Such a standard should include things such as number of cases, ratios to false-positive, ratio to actual fraud loss dollars prevented, ratio of undetected cases, etc. However, due to our size, we have to rely upon our Network provider to develop and maintain the most effective technology-specific standards and performance measures. Therefore we do not feel we are in a position to provide adequate information related to this issue. In a free market environment these types of challenges are managed through competitive pricing and effective fraud prevention. The alternative such as a regulated environment, you provide a built in disincentive towards innovation of these technologies which in turn will increase overall fraud and the costs associated with successfully identifying and mitigating it as a risk.

9. Is it likely that issuers will scale back fraud-prevention activities if those costs are not at least somehow reimbursed through a fraud adjustment and are there any specific activities or technologies we may consider eliminating because of the costs?

    Yes, with a decline in revenue all aspects including fraud-prevention will suffer. Unfortunately our credit union will not be able to eliminate the existing fraud prevention measures we currently employ but reduced revenue will impact us and may prevent us from investing in additional fraud prevention measures in the future or pass those costs to our membership. In either case if the merchants will not share the cost burden it will ultimately be shifted to the members to help pay for the necessities required to operate a debit card program safely.

10. The proposal details two alternatives to address the network exclusivity provision. Under the first alternative, card issuers would be required to provide two unaffiliated networks to route transactions. Under the second alternative, issuers would be required to provide two unaffiliated PIN networks and two unaffiliated signature networks:

    We don't prefer either provision but would choose option one simply from a cost perspective to the credit union and overall program expenses. If a two-tiered system works in practice, small issuers like us will still be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. Requiring more than two networks would place an unreasonable regulatory burden on our credit

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union that will negatively impact service to our members and increase the costs associated with their debit card product of choice.

11. Will there be a cost impact to our credit union if issuers are required to add multiple payment card networks in order to ensure transactions may be routed on at least two unaffiliated networks:

    Absolutely there would be a cost impact. Operationally we would see an increase simply due to the fact that we would be managing multiple vendor relationships requiring additional expenses across the operation spectrum. In addition, by requiring multiple networks, the Federal Reserve rewards large institutions with great economies of scale, while hurting smaller institutions like ours who do not have these luxuries.

12. Are there any notable differences between the potential requirement to provide two unaffiliated networks and the alternative of providing two unaffiliated networks for both PIN and signature debit transactions:

    Expenses plain and simple. Providing two unaffiliated networks will cause an additional expense increase but then factor in both PIN and signature debit transactions and the expenses easily expand to a point that disadvantages smaller issuers such as us even further.