



**ASSOCIATED  
CREDIT UNION**

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January 25, 2011

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551

RE: #R-1404  
Interchange Amendment of the Dodd-Frank Act

Dear Ms. Johnson,

I am writing you because I am very anxious about the Federal Reserve Board's recently proposed regulations that would determine debit card interchange fees and the routing of debit card transactions. I'm the CFO for a \$1.1 billion credit union in Norcross, Georgia and I am very concerned about the potential impact that the proposed regulations will have on my organization and the members that we serve.

I appreciate that the Fed has exempted institutions with assets under \$10 billion from the regulations. However, I am concerned that the amendment does not contain provisions to enforce the small issuer exemption. If Visa, MasterCard, Discover, etc. do not create a two-tier system for paying interchange fees to financial institutions based on the final rate setting, I have no doubt that my credit union ultimately will be subjected to the same rate restrictions as the large card issuers.

I'm also concerned about the additional requirement that we must issue debit cards that can be processed by two unaffiliated networks. My credit union has partnered with Visa for card issuance, authorization, transaction processing, monitoring, and fraud prevention. This partnership offers us access to Visa's economies of scale and helps reduce the cost of providing the debit payment system that our members expect. The partnership also provides us with tremendous transaction monitoring and fraud detection and prevention tools that help us protect our members' money and reduce our potential fraud losses. Requiring us to create another unaffiliated network relationship will no doubt raise the cost of providing our debit cards. I would urge the Federal Reserve to consider other issuance costs in addition to the authorization and settlement of transactions in the final rate setting process. Despite the fraud prevention tools that we have access to through Visa, my credit union is experiencing fraud losses nearing 11 cents for every transaction dollar spent. The proposed 7-12 cents per transaction interchange rate options are simply



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not adequate to cover all the costs of providing an efficient and convenient payment system for merchants and members.

The credit union system was not immune to the catastrophic effects of the real estate decline and the subsequent Wall Street collapse. We had several corporate credit unions that suffered huge credit losses due to investments in supposed AAA mortgage-backed securities. Rather than relying on taxpayer assistance, natural-person credit unions like mine are picking up the tab to ensure that the insurance funds that back these investments and our members' deposits are adequate to meet future losses. My credit union paid almost \$2.5 million in 2010 to assist in this effort. This equates to about 24 basis points of Return on Assets for my institution, or almost half the ROA for our credit union for the year. I have estimated that the impact of the proposed interchange legislation could harm our earnings by another 15-16 basis points annually. These fee restrictions would make it very difficult for my credit union to build net worth in the future. The reality is that we will be forced to look for ways to recoup this lost income and that could mean higher costs for our members.

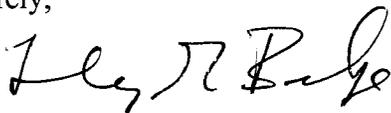
Debit and credit cards obtained through credit unions offer competitive rates and consumer-friendly terms. Our members are able to effectively handle their bills and establish a strong credit history. **Interchange revenue from the use of debit cards is vital to my credit union.**

Specifically, I would like to ask the Board to consider my concerns in the following three areas:

- **The low level rate cap** – please spend the time necessary to consider **all the relevant costs** associated with providing and operating debit card programs before establishing the final interchange rate cap.
- **Network exclusivity and routing of transactions** – please consider exempting small issuers from the requirement to establish non-affiliated transaction networks that allow merchants the freedom to choose how a transaction is processed.
- **The small issuer exemption** – please consider language in the final regulations that can be used to ensure that small issuers of debit cards will be exempted from the regulation as Congress intended.

I appreciate the opportunity to express my concerns regarding this proposed legislation. Thank you for your consideration of these very important issues.

Sincerely,



Timothy G. Bridges  
Executive Vice-President & CFO