

From: Paul H. Hale, Jr.
Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Dear Sirs, I would like to comment on the Interchange amendment. I find that .12 cent as a maximum per transaction, with .07 cents as a safe harbor to be unrealistic. The average transaction is now .44 cents per transaction. Issuers take all the risk on the transaction, and merchants bear none. If they wanted to have lower fees upfront, then let the merchants take some of the liability risks. Under the current system all the merchant has to do is "say" they verified signature and they have zero liability. Issuers take all that risk, and have fraud losses, and cost of doing business that have to be covered. You will get unintended consequences that you are not considering. Banks will have to start charging for debit cards, or will eliminate free checking accounts. Additionally, rewards programs will be left in the dust. While the idea of the proposal is sound the methodology is flawed. Putting a cap on interchange fees will only hurt the consumer. The savings that merchants receive cannot reasonably be expected to pass to the consumer. I cannot believe the Federal Reserve would be that naive. Additionally, the 10 billion dollar exemption is laughable. Merchants will simply stop taking small community banks debit cards because they will be exceptionally more expensive than the bigger banks. You will effectively drive small banks from the market. I know the law was passed and you have a job to do, but please realize the effects you will have on an entire portion of the market. Passing savings on to consumers is great; however, this is not the way to do it. All this rule will do is raise consumer's costs and harm small banks and small issuers. Thanks, Paul H. Hale, Jr.