From: William Peter Guarnieri

Subject: Reg I I - Debit card Interchange

Comments:

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Dear Ms. Johnson, I am a student at Georgetown University Law Center, and I am writing in regards to the Federal Reserve Bank's proposed rules to implement Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. I write as a concerned consumer who uses multiple forms of payment, including debit, credit, checks, and cash. I would like to point out a major concern that I believe the board must take into account during its deliberations. Although these regulations ostensibly address relationships between merchants and banks (specifically card issuing banks), it is clear that any and all changes will likely have a major effect on consumers and their pocketbooks. Therefore, any proposed rule must take into account the likely effect on the consumer. Specifically, I would like to highlight two related provisions of the statute that I think are likely to have a large impact on the consumer, and thus will require special consideration of that impact when crafting new rules: the section of the statute prescribing reasonable interchange fees; and, the authority to regulate network fees. First, while the restriction on interchange fees will directly impact the relationship between the merchant and the issuing bank, there is a high risk that any shifting of costs will offer no benefits to the consumer. For example, it is possible that merchants will be able to lower their prices with the money saved from lower fees. However, while those lower prices might benefit consumers, the card issuers may attempt to recoup the lost money via new fees and charges to the consumer. Whether or not that results in no net change or a net loss for the consumer, it's certainly not good for them. The rules should be crafted to ensure that competition allows any savings to be passed on to consumers, and not merely shift wealth between retailers and banks. This in turn is related to the second issue: the authority to regulate network fees. An overly restrictive rule that prevents the card issuers from recouping any of the money lost to lower interchange fees seems more likely to force banks to pass on the costs to the consumer in the form of other unrelated fees. Conversely, if the rule is not stringent enough, clever banks (and their clever lawyers) will circumvent the rules, defeat any savings to merchants, and thus defeat any possibly of cost saving for the consumer. The rules must be crafted to reasonably allow the banks to recoup enough money from the system and hopefully prevent them from raising prices on consumers. In general, the Board must ensure that the end rules at the very least do not harm consumers, and hopefully end up benefiting consumers. The best way to achieve that no-harm is, to the maximum extent possible, encourage transparency and competition. By doing so, the rules can allow competition to drive down the cost of both retail and financial services to consumers, who should and must be the ultimate beneficiary of the rulemaking. Thank you for your consideration of my comments. Regards, William Peter Guarnieri