From: Metrum Community Credit Union, Karen Padrevita

Subject: Reg I I - Debit card Interchange

Comments:

February 4, 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 name is Karen Padrevita and I am a long-time employee of Metrum Community Credit Union which is $50 million in assets and serves around 5,000 members. I am writing to you today regarding the comments desired on the Durbin Amendment which is concerning Interchange Fees. I am representing myself in this letter as a Credit Union Employee and as a Consumer representing a household of two incomes, which also supports two young children.

This letter is intended to provide my comments on the two areas of proposed alternatives, the possible impact of Metrum Community Credit Union, and the unintended consequences that my family, and many others, will face if this 'consumer friendly' amendment is placed into law.

In regards to the two alternatives proposed on the interchange fee rates, it is hard to favor either option. I understand that the rate setting provision is to limit the amount of interchange income to "reasonable and proportional costs" incurred by the issuer for authorization, clearance and settlement of the transactions. The only choice, if forced upon us, is the second option of setting the maximum cap of 12 cents per transaction. However, this option does not even cover our costs associated to authorization, clearance and settlements of transactions. Between our VISA network fees and processing fees (CO-OP is our provider), we have an average payment of 19.08 cents per transaction. The proposed Interchanged Fee Rate will cause a 59% loss to us with the 12 cents per transaction cap. I would also like to add that the 19.08 cents per transaction noted above does not cover the real costs of running a debit card program. When reviewing the costs associated with VISA administrative fees, network fees, CO-OP admin fees, Fraud Protection and losses, telecommunication fees, data processing fees, and ATM fees, Metrum Credit Union has a hard cost of 31.97 cents per transaction. The proposed 12 cents per transaction cap will cause a 166% loss per transaction- and this does not include the staffing costs to run the program.

I understand that the Durbin Amendment is intended to only be placed on financials that are $10 billion and over. To help protect the majority of smaller institutions that do not apply to this rule, the exemption for smaller institutions must be enforced. The two-tiered system must be enforced, at a reasonable and proportional cost. Finally, the potential discrimination by a retailer or retailers must not occur. We are grateful that the VISA network has announced that they will support a two-tiered system, however, it will also cause us loss if they begin charging additional fees to the smaller institutions to create and run this two-tiered system.

The next area that I would provide comment on is the alternatives proposed for network exclusivity and routing. "Alternative A" appears to be the most logical of the two options, although the reasoning behind this proposal is not clear to our small institution, other than allowing the merchant to control the type of transactions allowed. Currently, Metrum Community Credit Union only offers a signature based program, as the PIN based transaction for point of sale purchases adds fixed and variable costs to our program. We do offer PIN based transactions at ATM machines for member convenience. If we were forced to add the PIN authorization to our program, it could be done. It is our understanding that our interchange income would decline under this scenario and our expenses would increase. There is no benefit to the institution, or the consumer. We are concerned with what the real reason behind this proposal is and what is driving it. It is big retailers? Do they plan on only accepting Debit Cards if it is a PIN based transaction? If so, how will this be good of the consumer?

If the Durbin Amendment is put into law, all financial institutions are expecting, and planning, to see a reduction of income related to their debit programs-including those of us that are exempt due to our asset size. This proposed rule does not assure us that the two-tired structure will be implemented or enforced. Nor does it ensure that merchants will be held accountable to accept the smaller issuers card (yes, I know that it's in the rule to not discriminate- but who's going to enforce this?). Also, the interchange fee rates must consider all costs of operating a debit card system to the maximum extent allowable by law, including all fraud prevention costs which is covered by the financial (when was the last time the merchant actually verified it was you using your debit card? They still get their money, while we have to pay for the loss). Overall, this amendment will cause all institutions (no matter what size) to look at where they can recover the increased expenses from running their debit card program. The first place they will turn to is the consumers that have accounts with them.

The once free checking account, will no longer be free. Notices are already being delivered to consumers regarding the new requirements to avoid being charged. Bank of America and Wells Fargo have already started, with Chase will beginning their new fee structure on February 5, 2011. If these big three financials have to recoup expenses caused by this amendment, what will the smaller institutions do? They will also have to start charging. From our initial estimates, if this amendment reaches our smaller, consumer friendly-and owned, institution, we will need to charge $4.50 each month to all of our checking accounts-just to break even. This amendment only benefits the merchants with reduced costs-which are associated to running a business. If they cannot afford to pay for accepting debit cards, then maybe they should go back to just accepting checks and cash.

The unintended consequences that will be caused by this amendment will hurt many consumers. Those that are unable to afford the requirements needed to avoid being fee'd will be charged. Those that can't afford to be charged monthly for their checking account will be driven check cashing merchants. This unfortunately may be their only solution.

I urge you to look more into this amendment that was pushed through with no review prior. Appropriate research is needed to see how this will affect all- not just the big guys with $10 billion and over that can afford this.

Sincerely,

Karen Padrevita