From: Baltimore County Employees Federal Credit Union, Regina English

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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Comments:
Thank you for the opportunity to comment on the proposed regulations regarding interchange fees. As a relatively small credit union serving County employees, we have offered no-fee debit cards to our 11,000 members with checking accounts, making it easy for them to access their money to pay for their families' expenses. We rely on interchange income for funding these programs, so we don't have to burden our members with other fees. We feel that the Board should delay implementation in order to make sure that the complex implementation options that have been proposed do not negatively impact our members. We hope that the Board, in issuing final regulations, intends to provide the framework to help ensure that smaller issuers, like us, are competing on a level playing field. The key effect of the rule is the transfer of revenue from the banking sector to the merchant sector which, as it stands today, will happen without regard to the impact to consumers. Our credit union is
working to restore capital that was lost over the past two years by practices of others that we did not participate in. The drastic loss of interchange revenue to our credit union will likely result in many of the services we offered in the past at negligible or no cost being paid directly by our members. This seems to be a clear consumer harm that will result from the rule. We can expect that the timeframe for passing on increased product costs will be accelerated if the rules are implemented this October. The current Fed proposal takes into account only three elements of interchange: authorization, settlement and clearing costs and has priced the transaction at $.12. Although these three components define the actual function of a debit transaction, there are many other additional costs that allow a card transaction to be executed and are necessary for a debit program to exist in the first place, without which there would be no transactions. It is these additional costs that
will directly impact my credit union - card issuance, technical and processor

costs, fraud mitigation and consumer protection, and in-house staffing. Exclusion of any of these could be prohibitive to maintaining solvency of my credit union's debit card program for my members. Furthermore, small issuers pay proportionately higher costs, which are not reflected in the formulas. Historically, interchange was structured to compensate issuers for the cost of offering and managing card programs, including fraud loss and fraud prevention. It also has benefited merchants by providing a third party to assume the costs and risks of their transactions, so they do not finance large purchases themselves. These rules transfer the costs from the merchants to the issuers when the merchants should legitimately be paying for these services in support of their sales. In summary, we hope that the Board will consider delaying the implementation of these rules until these and other consequences are

examined properly. If prematurely implemented, the wrong rules will have the effect of higher costs for consumers and less options in the payments marketplace for them. Sincerely, Regina English Controller