MOUNTAIN AMERICA
CREDIT UNION

7181 SOUTH CAMPUS VIEW DRIVE · WEST JORDAN, UTAH 84084 · TOLL-FREE 1.800.748.4302

February 9, 2011

Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

RE: 12 CFR Part 235, Regulation II; Docket No. R-1404; RIN 7100-AD63

Dear Chairman Bernanke:

I am writing on behalf of Mountain America Federal Credit Union to express our serious concerns with the proposed regulations for debit card interchange fees and routing.

As you may know, credit unions like Mountain America are not-for-profit, member-owned financial institutions. This means we are charged with the stewardship of our member-owners' funds. We are committed to maximizing members' interest earnings, minimizing their fees and providing them with world-class, yet affordable, products and services. If the Federal Reserve were to enact the proposed regulations, it would upset this delicate balance and negatively impact Mountain America Credit Union and our members.

We strongly feel that the proposed caps are artificially low and do not reflect the true costs of running a secure, reliable and efficient debit card program. They do not account for overhead, staffing or fraud prevention. The annual price tag of actual fraud losses, prevention, and innovation efforts for Mountain America is in the millions. Interchange earnings allow us to keep our members and their money safe.

Additionally, capping the interchange fee at 12 cents per transaction could lead to a significant loss in revenue for Mountain America. It is important to note that these earnings are not distributed to shareholders. Rather, they are re-invested in the credit union via lower loan rates, higher savings dividends, new services and products, and more locations. In other words, these earnings belong to our members.

Mountain America would need to take drastic measures to make up for a loss of this magnitude. We would have to consider increasing fees elsewhere, eliminating products and services, cutting staff, and perhaps even closing locations. These changes would result in less-than-satisfactory service for our members and could even cause them to become disgruntled and potentially unbanked. Given that many unbanked consumers rely heavily on predatory check-cashing and payday-loan establishments, it is easy to see how this situation is less than ideal for our members and other consumers as well.

Over the last 20 years, debit cards have steadily increased in usage and have a very high perceived value. Both consumers and merchants enjoy the benefits of paying with a debit card. For consumers, it is a secure and convenient way to buy goods and services; for merchants, it is an easy way to appeal to more customers and is virtually a guaranteed source of payment. For this last reason, many merchants, especially restaurants, no longer accept checks. In essence, merchants pay interchange fees in exchange for minimal or non-existent risk when it comes to payments. The proposed regulations would eliminate this guarantee, because the risk/reward ratio would be too great for financial institutions without a variable fee. This could result in financial institutions limiting debit card transactions to small amounts or discouraging debit card usage in general.

One might argue that the exemption for financial institutions with less than $10 billion in assets would protect smaller institutions like Mountain America, thereby nullifying most of the negative consequences. We find this premise unfounded. If a merchant is allowed to route debit card transactions through the network of their choice, they will choose the cheapest network nine times out of ten. This means smaller institutions would be forced to lower interchange rates to be competitive with the larger institutions' forcibly-low rates. Moreover, if these institutions did not lower their interchange fees, it is possible that merchants could discriminate against them, resulting in fewer choices for consumers at the point of sale.

Finally, the provisions are inconsistent with basic American free enterprise principles and will stifle payments innovation. Currently, no other price, outside of a monopoly, is fixed by the government. In our opinion, this kind of regulation will have far-reaching effects, well beyond debit card interchange, and will set a precedent for regulation in the financial industry and beyond. The elimination of economic incentives may also deter investment in system improvements and advancements, like mobile payments.

Because of the many issues related to consumer harm and basic fairness, we urge you to delay the effective date of the Federal Reserve's rulemaking for two years, hold hearings on and direct joint federal agencies to study the debit provisions' impact, and take appropriate additional action as suggested by the study results.

Thank you for your time and consideration.

Sincerely,

Sterling Nielsen

Sterling Nielsen
President/CEO
Mountain America Credit Union