From: Altra Federal Credit Union, Mary T. Isaacs

Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 10, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
Name: Mary T Isaacs
Affiliation: Altra Federal Credit Union
Category of Affiliation: Other
Address:
City:
State:
Country:
Zip:
PostalCode:

Comments:

As an $800 million dollar credit union in the Midwest, our goal is to help our members become and stay financially fit. The proposed cap on debit card interchange income will seriously impact our ability to do that. Let me explain our specific concerns about the amendment: We are extremely concerned about maintaining the $10 billion dollar exemption in the proposal. Visa supports this as well as Pulse, our PIN network. The argument that it is difficult and costly is not valid. They already do it. We are worried merchants will find ways to incent members/customers of smaller financials to use a debit card from an institution larger than $10 billion. We believe this would need to be addressed in the regulations. We currently offer a Reward Checking account. We pay an above-market rate (currently 3% APY) if members use technology services and swipe their debit card 10 or more times per month. Our 2009 product profitability analysis of our checking accounts showed we were slightly above break-even with our current level of debit card interchange. If our interchange income is reduced by 80%, we will need to restructure all of our checking accounts. This may mean requiring minimum balances, adding fees and potentially lowering the Reward Checking rate. We calculated our direct transaction costs associated with a PIN transaction at about 4-5 cents. A Visa signature transaction is about 14-16 cents including related Visa dues and Visa transaction costs. We have many other related costs including monthly maintenance, data lines, data processor costs, fraud and of course people time. The math is simple. If we are paid 12 cents for these transactions, we cannot afford to offer free checking. As a member-driven financial, we have never structured our product pricing to produce excessive profits. As other regulations have chipped away at our income in the past year, this additional loss of income will force us to charge fees to our members who can least afford them.

This also comes at a time when credit unions are in the unique position of making payments to cover losses we did not cause; in 2011, we will be making a $2 million payment to stabilize the credit union insurance fund. For all of these reasons, reducing debit interchange will ultimately hurt the consumer. Merchants are not required to pass along any savings to consumers and it is highly unlikely they will. Community-based financials, who are lending money and supporting their communities, will be driven out of business or forced to add new fees. Consumers will face additional charges for checking accounts and low-income consumers will bear the brunt of this change. I strongly urge you to reconsider capping debit interchange fees.