



February 14, 2011

Jennifer J Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Re: Regulation II; Docket #R-1404

Dear Ms. Johnson,

I am writing to you as the President of Lone Star Credit Union in Dallas, Texas. We are a \$96 million state-chartered, federally insured credit union with over 11,800 members with nearly 5400 checking accounts using almost 5500 debit cards. Needless to say, we have come to rely upon an interchange network that allows consumers to buy and sell very conveniently in our economy.

With very little consideration by Congress, this network, that is a major player in our payments system, is about to change as mandated by our elected officials. Although our financial institution is small, it is no less important to the members we serve, and I believe I would be remiss in my duties without expressing those concerns to the powers who are going to reconfigure this interchange network that did not need "fixing," except for the redistribution of the income it generates. This change is going to negatively impact this credit union and our members, and we will have to make the necessary changes accordingly. Whether the members pay for this cost in the products and services they buy, or pay a fee for the privilege of using a debit card, we know who ultimately bears the expense of doing business, and who will benefit from this change.

The financial institutions, large or small, have always guaranteed payment to a retailer on an authorized transaction, even in the event of fraudulent use of the card. For the most part, both the cardholder and the retailer were held harmless from these transactions, and the financial institution paid for the cost of fraud. However, I have not seen any consideration given to this very real cost, and would like to know if any is being given for allocating the expense of a fraudulent use? As for Lone Star Credit Union, this expense in 2010 was \$7643.00.

It is also my understanding that this legislation was designed with the intent to protect the small institution via a tiered network system. Yet, it is still not determined as to how it is going to work exactly with a proposed "Alternative A" and "Alternative B" structure. I would sincerely request

your consideration in favor of "Alternative A," which, I believe, would allow for credit unions to participate more competitively.

While I realize you cannot change the mandates of the regulation, you can further delay implementation of these changes. I believe this would allow for more thought and consideration to be given for this transition. Thank you very much for the time you take in reading my letter.

Sincerely,

Jerry Clancy
President/CEO
Lone Star Credit Union
7508 Ferguson Rd
Dallas, TX 75228

jclancy@lonestarcu.org
214-217-8101