From: Dover Federal Credit Union, David Clendaniel

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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February 15, 2011 The Honorable Ben S. Bernanke, Chairman Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20551 Dear Chairman Bernanke: I have very serious concerns about provisions in the proposal to regulate debit interchange fees issued by the Federal Reserve Board. Before addressing those concerns I want to recognize that the Board has been placed in the unenviable position of having to develop regulations to implement the Interchange Amendment of the Dodd-Frank Act. This amendment contains conflicting directives, particularly concerning the statutory exception for financial institutions (FI) below $10 billion in assets. The interchange amendment also directs the Board to create government imposed cost caps on private industry transactions. The current proposal lacks enforcement provisions to ensure that exempted small FIs are in fact, exempt from the interchange caps placed on large institutions. Without such language all
FIs will be processed through one network. The proposed provision that limits interchange reimbursements to 12 cents per transaction (7 cents under the safe harbor) is not sufficient to cover Dover Federal Credit Union's costs to offer debit cards and process transactions for members. Unfortunately, the Board, by statute, could not include all associated costs into this equation. A cap of this level will ultimately cost the consumers more since the debit card program must be funded. While the limits are for large FIs, I am concerned that this model will be used for all, especially given the lack of regulatory enforcement. The multiple options that merchants could have to direct the routing of transactions, under proposed Alternative II, to implement the prohibition on exclusive arrangements under the Interchange Amendment, could lead to merchants selecting which cards they will honor based upon their networks. In addition to the loss of interchange income, this approach would also
mean small FIs would have to bear even greater costs associated with having to

join additional networks. Dover Federal does not want to charge our members more fees. However, the results of the loss of interchange fee income and the costs of having to belong to more payment networks will have a horrendous impact on our debit card program placing Dover Federal Credit Union at a competitive disadvantage. Any reduction in our income is borne directly by our members (consumers) via higher fees, lower dividends on their deposits or higher rates on their loans. Thus, consumers will be left paying for the bonanza to merchants - which is not what Congress intended. Before I close I must point out that merchants do not bear any of the expenses or risks associated with debit/credit networks. Additionally they are not forced to accept debit or credit cards as payment. Merchants make a business decision, and knowingly agree to pay for the service of payment processing. Neither Congress nor any

federal agency should interfere in that business transaction. I urge the Board to consider these concerns fully and to consider the consequences and costs of the current proposal. Sincerely, David W. Clendaniel, CCE President/CEO