

From: Hughes Federal Credit Union, Carla Craig
Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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I am writing to express my concerns on the proposed rules to establish Debit Card Interchange Fees and Routing [R-1414]. Within the last four days, our Credit Union has seen \$5,538.00 in Automated Teller Machine (ATM) fraud losses due to card skimmers that law enforcement confiscated at many local gas stations. The fraudsters captured card numbers including PINs and made ATM withdrawals at ATMs in another state. The Credit Union spent employee resources to contact our members, block and order new cards, and put strategies in place to decline transactions with Falcon, our fraud detection system. We were able to determine a common point of compromise by running yet more reports. It was determined that we should place a block on cash advances from similar merchant category codes with the card numbers that we had identified to prevent further loss to the credit union. Law Enforcement did reach out to these merchants to check their terminals. There were 9 devices found capturing card data. Our credit union has credited back each member at a loss to the Credit Union for transactions that were done fraudulently. ATM fraud has been a popular choice for criminals due to the relative ease of obtaining money. I believe that the following factors should be reviewed and included in defining the interchange rate. For example the cost of: 1. Overhead - to manage card infrastructure which includes phone calls, IVR systems, call center employee salaries 2. Plastic - to include Shipping/Embossing/Encoding/Security of Encryption/Reissuance/Postage 3. Issuance - Activation, PIN encryption, unique bins and varied debit programs 4. Exception processing - chargeback, disputes and arbitration 5. Fraud - Prevention and losses, Skimming, Phishing, Merchant breaches and compromises 6. Compliance - PCI mandates, card technical specifications, international transaction support 7. Technology - 64 bit keys, Dynamic Key, Chip (EMV), Triple Des Authentication, support for ISO 8583 specifications 8. Payment Infrastructure - Association, Payment networks, Merchant processors, Core processors, Internet, Card processors 9. Going green - Card life is 2-3 years versus Paper-Checks. The exclusion of any of the line

items could be prohibitive to maintaining solvency of my credit union's debit card program for our members. The key effect of the rule is the transfer of revenue from the banking sector to the merchant sector. As it stands today, this will happen without regard to the impact to the consumer. To maintain current levels of capital and current levels of member service, our credit union will likely have to raise our prices and add new fees to make up for this transfer of revenue. Our credit union is working to restore capital that was lost over the past two years. Compounding the hit to our revenue in the loss of debit overdraft fees, the drastic loss of interchange revenue to our credit union will likely have a severe impact to the services we offer our members. The survival of our credit union hinges on our success in making these price adjustments. Many of the services we have provided in the past at no or low-cost will now probably be paid directly by our members. We will likely have to ask our members to contribute more to the cooperative through new fees, higher account maintenance fees and higher loan rates. Financial institutions may be forced to lay off employees as a result of lost debit interchange revenue, which seems to be a clear consumer harm that will result from the rule. I am puzzled how this rule can further the objectives of a "Consumer Protection Act". It seems more appropriate to call it a "Merchant Protection Act." Thank you for your attention to this matter. Carla Craig V.P. Operations.