From: Jamie Estep

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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Name: Jamie Estep
Affiliation:
Category of Affiliation: Commercial
Address:

City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
Federal Reserve Committee on Interchange Regulation, I believe that the proposed interchange regulation will not only hurt consumers but will ultimately hurt the businesses that it claims to benefit, the debit issuing industry, and possibly the economy as a whole. The debit regulation is a baseless attempt at redistributing profit, and is an unprecedented attempt at allowance of the government to regulate a private B2B industry. At first glance the bill aims to reduce fees on debit card purchases. However, upon analyzing the actual effects of such regulation, it is unlikely that consumers and the overall economy will benefit from regulation. First, if debit interchange is capped at $.12 or any arbitrary number that is even remotely as unreasonably low, it will cause banks and issuers to reduce or stop debit card issuance to consumers, and will require issuers to find additional revenue sources from their banking customers. The banking industry is seeing similar reactions to the banking regulations passed several months ago. The reaction that banks will take to debit regulation will increases costs to consumers through the addition of fees and the loss of benefits. More than one issuer has suggested dropping debit card availability altogether to their customers. At the very least we can assume a reduction in benefits and an increase in checking account related fees directly passed to banking customers. This will result in the reduction of the number of debit card users and will subsequently reduce merchant sales in both quantity and overall volume. The debit regulation will have a polar effect to what it is intended to do on paper. If merchants get less business as a result of these regulations, then the savings that they are getting on debit card purchases are irrelevant. It's quite possible depending on the exact reaction from banks and credit unions that debit regulation hurts the economy as a whole. Secondly, the credit card processing industry is a B2B industry. The government has no basis to step in and regulate especially when the regulation will have marginal, if any, effect on consumers. The NRF, Merchant Payment Coalition and other anti-interchange interest groups have completely spun the idea of interchange, even calling it a tax, and that is has

a direct correlation with what merchants charge their customers. Australia is a blaring example of merchant's reaction when the government steps in and caps interchange. Post-regulation studies have shown that there was negligible to absolutely no lowering of merchant's prices as their expenses lowered due to processing fees going down. In several cases, merchants surcharged their customers even more than the fees that they were paying. Surcharging is not a part of the US bill, but merchants in Australia show us exactly what happens when their fees are lowered, which at best is nothing. In reality the entire interchange regulation concept whether debit or credit is off base and will not result in a reduction of costs passed to consumers. If businesses are vowing that the savings will be passed on to consumers, I would like to see them sign a contract that they will lower their prices proportionally to the reduction in cost of debit interchange. This was brought up in the past and the NRF scoffed at the idea. To them, it's a simple matter of profit redistribution. This is a chance to increase their bottom lines, which is understandably appealing, however completely inappropriate to do in this manner and by government intervention. An ethics argument is the easiest way to gain support of the government and those whom do not understand the industry. Third, the 2 tier system (10B asset carve-out), will likely have an opposite effect on the smaller entities that it aims to protect. Provided that retailers can negotiate and chose who they want to use for debit processing, they will inherently push customers toward cards that cost the merchant less which isn't the
smaller issuers. What incentive would retailers have to treat all debit cards the same when they have to pay more for card A than card B and it's at their discretion on how they accept them. Small merchants will take whatever payment they can get, but large retailers will undoubtedly work to isolate the smaller issuers with the higher interchange. This is exactly opposite of what small issuers need and the exact opposite of what the regulation intends to do. Finally, the regulation doesn't recognize that electronic debit is of benefit to merchants, and it fails in principle to differentiate between electronic debit and paper checks. With debit, the merchant is guaranteed the money being transferred as soon as the PIN is entered or the receipt is signed. No trip to the bank, no hoping the check doesn't bounce or is fraudulent. Even when comparing to the ACH system, which is far more similar than the paper banking system, if the merchant wants a guarantee on the funds they are processing, r wants immediate deposit, it requires the merchant to pay a percentage and a flat fee. It's unfair to compare a debit transaction to a paper check transaction because they are simply not the same thing. With both, money is transferred from one account to another. However, the benefits and guarantees associated with a debit transaction are far different and incomparably more beneficial to the merchant. The majority of merchants (small ones especially) have completely eliminated the acceptance of paper checks. This move wasn't entirely the result of more consumers switching the debit or other electronic forms of payment. It's also because checks are a huge hassle to accept and are extremely slow, and cause problems when the customer's account is insufficient. Merchants chose to stop accepting those types of payment. Lowering debit because merchant's costs are going up, because they are choosing to stop accepting checks is not a realistic response. If I choose to power my
house with wind energy and it costs me 2 times more than normal, how could I possibly ask the government to lower the cost of wind energy. Even though I want to use wind energy and it's cleaner, it's a choice that I am making. Merchants are asking for regulation because of a choice that they made and are continuing to make. I can sympathize with business owners that want to lower their costs. However, the arguments proposed for interchange regulation are

baseless and the regulation itself potentially hurts whom it claims it will protect. In the end, this is a senseless push to redistribute profit and an obvious attempt to set a precedence so that further and more encompassing interchange regulation can be established. Sincerely Jamie Estep