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February 17, 2011

Dr. Ben Bernanke
Chairman of the Federal Reserve Banking System

Subject: Docket No. R--1404 and RIN No. 7100 AD63

Dear Chairman Bernanke;

I am writing to you today in my capacity as the CEO for a $150 million credit union regarding the "Durbin" amendment to the 2010 Frank-Dodd Wall Street Reform and Consumer Protection Act, specifically the provision requiring the Federal Reserve to determine a "reasonable and proportional" interchange transaction fee to cover the costs of issuing and operating a debit card program.

The Federal Reserve's initial proposal to set the interchange rate at between $0.07 and $0.12 per transaction has me deeply concerned. Setting the rate that low will eliminate between 75% and 85% of the credit union's debit interchange income without a commensurate reduction in processing expenses. The result will be a program that is no longer profitable for the credit union.

However, the merchant's costs would go down (while we would continue absorbing the cost of fraud).

Since debit cards have become a fundamental part of our membership's finances, the credit union will have no choice but to increase transactions fees on our membership to cover the deficit. One new membership fee that we will be forced to implement is a $2 monthly maintenance fee for every debit card issued. This fee will impact over 7,800 of our members by costing them up to $24 per year that they did not have to pay before.

Transaction fees for overdraft protection will have to increase under the new fee structure. Our credit union offers this service to our members at fees considerably lower than local banks are charging. Trying to replace the lost revenue from debit card interchange will result in our overdraft protection fees increasing from $22 per overdraft to $25 per overdraft.

The above scenarios only reflect a typical operating year. In 2007 a data breach at a local merchant resulted in over $100,000 of debit card fraud losses that were absorbed by this credit union. The total fraud losses resulting from this merchant's failure to protect card data cost local financial institutions approximately $1 million.

We employ state of the art fraud detection and prevention systems but we also recognize that security is only as strong as the weakest link, which is all too often the merchant. Further adding to the inequality is the fact that the merchant retains no exposure to fraud losses.

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The traditional purpose of interchange income was to compensate the issuing institution for accepting the entire cost of fraud prevention and reimbursement to the fraud victims. Unless the costs due to actual fraud losses are considered along with the costs of fraud prevention, I believe that the "reasonable and proportional" interchange transaction fee set by the Federal Reserve will be too low to accurately reimburse financial institutions that issue and operate debit card programs.

I urge the Federal Reserve to carefully consider the interchange fee rate that it determines to be reasonable and proportional in light of its impact upon community financial institutions and their customers. A rate that fails to accurately capture the true costs will result in any proposed savings at the retail end being offset by increased banking fees or even a return to paper payments presented to the merchant. I am aware of the $10 billion exemption in the Durbin amendment but I doubt that a tiered rate system is either possible or practical for payment systems processors to operate. Thus, any rates set by the Federal Reserve will likely apply to all card issuers regardless of asset size. Thank you for your consideration.

Sincerely;

Gregg R. Bynum
President/CEO
The Education Credit Union

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