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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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As the CFO of The Southern Federal Credit Union, I must add my voice to the growing chorus of other card issuing financial institutions that truly understand that the implementation of price controls via an artificial cap on debit interchange fees will only hurt consumers by leading to higher fees and access to fewer financial services. The proposed debit interchange cap will allow merchants to reap all the benefits of accepting debit cards without paying their fair share into the system that allows the transaction to happen. Merchants benefit from accepting debit cards through increased sales, since customers do not have to carry cash, and also guaranteed payment when the transaction is authorized at the time of sale. So while they enjoy the benefits, merchants are trying to pass their costs associated with debit transactions onto the financial institutions and, by extension, the general public. Like many other financial institutions, The Southern Federal Credit Union cannot afford to absorb those costs. To do so would turn what little net income we earn into a net loss. Therefore, those costs would have to be passed on to our members through increased fees and a reduction in services. Our goal as a credit union is to help our members meet their daily financial needs and their long-term financial goals. We cannot meet that objective if we are operating at a net loss. To limit the interchange to only that amount directly attributable to the settlement of the transaction is terribly shortsighted because it is all the indirect and ancillary costs subsidized by the interchange that has allowed debit card usage to flourish. The majority of these indirect costs involve fraud and dispute resolution, and as a financial institution, we bear the brunt of fraud related costs, even when the origin of the fraud is attributable to negligence on the part of the merchant. To ask that merchants be responsible for their appropriate portion of the entire cost (both direct and indirect) of the debit transaction is not only fair but also

contractual between the merchant and the payment networks. The Federal Reserve coming in and essentially invalidating a voluntary, legally-binding contract between two parties is government interference at its worst. While most of the focus has been on the costs that will be borne by our members and the general public at large, I fear that less attention has been placed on the provision that allows merchants to control the routing of the debit transaction. A purchaser's chargeback rights are dependent upon how the transaction is routed. For instance, if it routes through the Visa network, then the purchaser is covered by Visa's zero-liability policy. However, if the merchant is allowed to route the transaction through another self-selected network, then the merchant will be subjecting the customer to less protection and greater liability.

While it is currently fashionable to blame all of society's economic woes on the real and supposed misdeeds of the 'big banks', this effort to punish them will serve only to hurt the customers and members of our local community banks and credit unions. Therefore, it is my sincere hope that the government removes itself from the business of price controls by fully repealing this poorly thought out amendment and allowing free market forces to work as intended.