Alabama Telco
Credit Union

January 28, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Proposed Rule on Debit Interchange – Docket Number R-1404

Dear Ms. Johnson:

On behalf of Alabama Telco Credit Union headquartered in Birmingham, I am pleased to submit comments on the Federal Reserve's proposed rule on debit interchange pricing as required under the provisions of Dodd-Frank Wall Street Reform Act. Alabama Telco Credit Union was founded in 1934 and since that time has grown to serve over 53,000 members with assets over $500 million. This growth is attributed to the service we provide our members and our focus on providing them with the best financial products and services at the best rates.

Unfortunately the Federal Reserve's proposed amendments to implement the statutorily required changes to Section 920 of the Electronic Funds Transfer Act will make this service more difficult, and possibly more expensive, for our members who carry our debit cards. This is not unique to our credit union, but to all financial institutions that issue debit cards to their members or customers. While Section 1075 of the Dodd-Frank Act does indeed require the Federal Reserve to implement price controls for debit interchange transaction fees, the way in which the Fed has drafted these rules does not enforce the intent of Congress in adopting the Durbin amendment and must be revisited before final rules are issued.

Under the provisions of the legislative language, financial institutions under $10 billion in assets are to be exempt from the imposed interchange rate cap. However, absent sufficient regulatory enforcement of this exemption, smaller issuers such as Alabama Telco Credit Union will not be adequately protected. Under the proposed rule, there are not sufficient safeguards in place to ensure that the networks will develop a two-tiered system; one for issuers over $10 billion in assets and one for those issuers under the statutory threshold. In addition, the final rule must contain an enforcement mechanism to ensure that merchants and other entities that accept debit cards do not discriminate against smaller issuers that fall within the exempt tier.

Absent these safeguards, smaller issuers will either (1) actually find themselves at a competitive disadvantage due to diminished acceptance of our cards; or (2) smaller issuers will not be exempted from the artificially lowered price of debit transactions.

Alabama Telco Credit Union has significant concerns with regard to the 12 cents per transaction limit as set under the proposed rule. As discussed above, with the insufficient enforcement as proposed, this limit could ultimately apply to our institution. We question how the Federal Reserve arrived at the 12 cents per transaction limit. We see the proposal's definition of "Allowable Cost" as far too narrow to accurately reflect the actual cost of offering, issuing, and processing debit cards and debit card transactions. The 12 cents maximum (7 cents minimum "safe harbor") transaction limit will not cover our costs and would force us to either operate at a loss in this area, or find ways to pass this additional cost on to our members; something we absolutely do not want to do. We pride ourselves on the best service at the best rates, and fulfilling our sole responsibility of best serving the financial needs of our members. While the language of Section 1075 of the Dodd-Frank Act is undesirable toward that end, the rule as proposed makes the problem much worse through the failure to adequately account for actual costs. We urge you to reconsider your approach to the allowable costs.

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At the absolute minimum, data security costs should have been included, but unfortunately the comments in the rule indicate that this is something the Fed will wait to address until a later, unknown, date. The comments indicate that if and when the Fed does address fraud prevention, it will focus solely on the costs of implementing fraud prevention on the part of the card issuer.

I will point out that much of the cost of fraud is due to circumstances beyond our control. Like most card issuers, Alabama Telco makes a significant investment of time and resources to ensure the security of our member's transactions and accounts. However, data breaches and the resulting fraud losses are often beyond our control, yet represent a significant cost to us. Instances such as the TJ Maxx, Heartland, and Hannoford Brothers breaches happened due to the lack of control and security precautions by third parties who receive our members' data in the course of a transaction. Yet it was our credit union and many others similarly situated that paid the costs for the breach and resulting fraud. These costs to us are significant, and must be considered in determining the costs of operating a debit card program. Or are financial institutions expected to bear all the risk of loss, and not be compensated?

Again, thank you for the opportunity to comment on the proposed rule. However, in its current form, it is not something that we can accept, and we urge you to reconsider your approach as I have outlined in this comment.

Thank you for your consideration.

Sincerely,

Linda Cencula,
CEO, Alabama Telco Credit Union