Minnesota Credit Union Network SM

555 Wabasha Street North
Suite #200
St. Paul, MN 55102

Phone:
(651) 288-5170
(800) 477-1034

Fax:
(651) 288-5171

Web Site:
www.mncun.org

February 16, 2011

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

VIA E-MAIL: regs.comments@federalreserve.gov

RE: **Docket No. R-1404 - Debit Card Interchange Regulation II Proposed Rulemaking**

Dear Ms. Johnson:

The Minnesota Credit Union Network (MnCUN), representing 152 credit unions in the state of Minnesota, respectfully offers the following comments to the Federal Reserve Board's (Fed's) proposed new Regulation II, Debit Card Interchange Fees and Routing.

MnCUN appreciates the opportunity to comment on the Fed's proposed new regulation. We are very concerned with the proposed regulation that would regulate debit card interchange fees and routing.

Although the proposed regulation describes a two-tiered structure that would exempt financial institutions with less than $10 billion in assets from the 12 cent debit card interchange fee cap, the end result will likely subject all debit card issuers to the cap no matter what their asset size. The two-tiered structure provides no enforcement authority and no requirement that ensures the existence of a two-tiered network structure. Without enforcement authority, retailers will eventually favor conducting business with debit card issuers required to operate within the cap. To stay competitive, debit card issuers under the $10 billion asset threshold will eventually be forced to comply with the 12 cent cap requirement. Ultimately the retail market will force the gap between the two tiers to become nonexistent.

The interchange fee regulation was originally proposed as a consumer-friendly regulation. The likely result, however, will not be consumer friendly. The money that retailers save due to lower debit card interchange fees will likely not be passed onto consumers. On the other hand, consumers will likely have to pay for that decrease in debit card interchange fees in the form of fees on services previously received for free, paying higher checking fees, receiving lower deposit dividend/interest rates and possibly higher loan interest rates. Credit unions and all financial institutions likely will be forced to make up that lost income through other means.

MnCUN is also very concerned regarding the 12 cent cap regarding debit card interchange fees and what costs are included to compute that cap. Specifically, fraud prevention and data security costs were not included in consideration of the cap. These costs are major costs faced by credit unions in the ever evolving computer age. Therefore, the true cost of debit card interchange is not completely reflected in the proposed regulation, and the cap does not cover the cost involved in a financial institution offering debit cards.

MnCUN is also concerned regarding the proposed debit interchange routing and the further burden it will place on the credit union bottom line. Of the two options proposed, the alternative requiring each issuer to provide debit cards that can be used over two independent networks, although still a burden on each credit union's bottom line, is more favorable than the option requiring four independent networks.

Again, MnCUN appreciates the opportunity to comment on the Fed's proposed regulation on debit card interchange fees and routing. Thank you for your consideration of MnCUN's comments.

Sincerely,

John Wendland
General Counsel