Credit Union

February 22, 2011

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

Re: Comments Docket No. R-1404

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Federal Reserve Board (Board) proposed rule to regulate debit interchange fee income and debit card routing under the Dodd-Frank Act. UW Credit Union (UWCU) is a federally insured, state chartered credit union with assets of $1.2 billion and 154,000 members. We provide checking account services to approximately 106,000 consumers, including about 20,000 college age consumers. We are very concerned about the potential impact the proposed rule may have on our operations, our competitiveness with the very largest financial institutions and our ability to continue to provide consumers with affordable, low cost checking products. The following details are our primary concerns:

Impact of the Exemption for Small Issuers

The Dodd-Frank Act clearly provides a statutory exemption from interchange regulation to small issuers with assets under $10 billion. There is significant documentation from the legislative process which supports congressional intent that this exemption was intended to protect small exempt institutions from any potential negative impacts of this legislation. With all due respect, we believe that the proposed rule is not consistent with the intent of Congress with regard to the small issuer exemption. For example, Barney Frank, who chaired the reconciliation conference committee, authored a memo on June 29, 2010 to members of his caucus stating, "Also, the Federal Reserve will be issuing rules not only to limit interchange fees charged by large banks, but also to ensure that community banks and credit unions remain exempt from the requirements and are able to continue to issue their debit cards without any market penalty". The primary author of the debit card provision, Senator Durbin, is also on record with his expectations that small issuer institutions would be protected from harm by the exemption provisions provided in the Dodd-Frank Act. There is clear intent not only from the straightforward reading of the Dodd-Frank Act, but from expressed congressional expectations during the legislative process, that the Federal Reserve Board would promulgate rules which not only acknowledged the exemption, but provided small issuers the benefit of it. Public comments made by members of the Board and Federal Reserve staff seem to acknowledge that the proposed rule in practice is not likely to protect small

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issuers from market reductions in interchange income or reduced card acceptance by merchants.

We urge the Board to implement rules consistent with the exemption to protect small issuers from harm. In the absence of the intended benefit of the exemption, UWCU estimates a market forced price of 12 cents per transaction would result in a loss of revenue equal to 87% of our forecast 2012 net income. We can't stress enough the need for the Board to expand the proposed rule to include measures designed to ensure that small issuers receive the benefit of the exemption provided by the Dodd-Frank Act.

Negative Impact on Consumers
Given the estimated financial impact referenced, it is a certainty that if UWCU were not to receive the protections from harm intended by the small issuer exemption, we would need to implement substantial new consumer account fees in the range of $50 to $60 per year. If we were to shield college students from these new fees, we would need to implement new consumer account fees for other consumers in the range of $60 to $70 per year. This would likely represent an increase in the cost of living to our members since nothing in the proposed rule appears to monitor or require merchants to pass onto consumers any payment processing savings they receive.

Increased Market Power of Large Institutions
The Board has indicated that in development of the proposed rule that a card issuer survey was distributed to 131 organizations that, together with affiliates, have assets of $10 billion or more. Further, the Board has indicated they received 89 survey responses from this group of the very largest financial institutions. It is stated that based on the survey data, the proposed 12 cent cap provides recovery of per-transaction variable costs for a large majority of covered issuers (approximately 80 percent). However, no efforts have been made to survey the per-transaction variable costs of exempt institutions. Since the proposed rule does not seek to enforce the benefit of the exemption to small issuers, and the Board has not considered the per-transaction variable costs of exempt institutions and acted on this information, it is likely that market forces in response to the Board's proposed rule would allow 80% of the largest financial institutions to receive interchange income that covers their per-transaction variable costs, while smaller institutions suffer with revenue based on the cost structures of only the very largest banking organizations. UWCU estimates its per-transaction variable costs are greater than the 12 cent cap proposed. We urge the Board to consider the increased relative market power this rule would provide the large institutions over community-based banks and credit unions that were not surveyed in the development of this rule.

Network Exclusivity
In the proposed rule, the Board requests comment on two alternative approaches for implementing the restrictions on debit card network exclusivity. We support the one described as Alternative A. We currently provide two routing options on our debit cards--a signature-based network and an unaffiliated PIN-based network. We have always let the consumer choose PIN or signature without financial incentives or penalty. Routing today is based on the functionality provided by the merchant and the consumer's own preference. We have significant concerns with the expensive and operational challenges represented by Alternative B and urge the Board not to pursue that approach.

More Time Needed to Assess Impact on the Financial Services Industry and Consumers
We realize that the Board didn't establish the implementation timeline set forth in the Dodd-Frank Act. However, given the potential for significant harm to consumers and small issuers, we urge the Board to work with Congress to gain a delay in the implementation of the rule. Given the potential for significant harm to the nation's community banks and credit unions, we urge the Board to issue another proposed rule prior to the issuance of a final rule.

Please don't hesitate to contact me at 1-800-232-9000 should you have any questions or if you would like additional information related to this matter.

Sincerely,

Paul Kundert
President & CEO

cc: Senator Herb Kohl
Senator Ron Johnson
Representative Gwen Moore
Representative Tammy Baldwin