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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Even though this regulation has a two tier system to protect small financial institutions like us from loss of 75% of our income, most including Mr. Bernanke feels the two tier system will be gone within 2 years. Institutions will be required to provide at a minimum 2 or 4 networks for merchants to choose. Merchants will be able to direct transactions to the lowest cost network, which will force transaction fees down for competitive reasons. Large banks will not allow the difference in interchange forever and will demand equality with Visa and Mastercard and they will be pressured to comply. This proposal does not include provisions to enforce the small issuer exemption. The Federal Reserve is engaging in price fixing to the benefit of the merchant. When the cost of the service by regulation can not include all the costs to provide the service--that is price fixing. Who actually loses? The consumer because we will need to choose not to provide the service or increase the cost to the consumer to cover the loss. The merchant will not be extending the savings to the consumer. The consumer will pay the same for the merchandise and will also pay higher checking account fees. The merchant receives a guaranteed payment and if there is fraud the financial institution takes the loss but the merchant gets paid. The majority of the cost for fraudulent transactions are borne by financial institutions. In some cases merchants contribute to our higher fraud losses through breaches of their systems or failure to follow network rules. The cost of reissuing the cards are borne by the financial institution including the fraud losses. But these costs are not allowed to be factored into the cost to merchant so again these will be passed on to the consumer. I wonder if the merchant would want to return to the days of checks, the losses they took and the effort to collect on bad checks, I bet it would cost more than the 1% interchange fee for an essentially guaranteed payment. Why is it unreasonable to expect to make a profit on a product we provide when we have made the investment and also take the risk?