

From: Safe Credit Union, Ron Seaman
Subject: Reg II - Debit card Interchange

Comments:

February 19, 2011

Federal Reserve Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Federal Reserve Board:

I am writing in response to the Debit Interchange Price-fixing Proposal issued by the Federal Reserve Board (Fed) in response to the Durbin Amendment (Debit Card Interchange Fee Regulation) to the Dodd-Frank Wall Street Reform and Consumer Protection Act. I believe the proposal will be detrimental to our credit union members and consumers.

Credit Union members and consumers love debit cards. It is a safe, convenient and low or no cost method to access their own funds. Most financial institutions are able to offer free checking options primarily because of the ability to earn interchange revenue. Financial institutions provide members or consumers with on-line statements through home banking that allow members to maintain precise accounting of their purchases.

Merchants receive benefits from the interchange mechanism provided by credit unions and other financial institutions. Merchants would otherwise be responsible for other expenses as part of the cost of doing business, including cash management, bad check recovery and fraud. Debit card payments also provide merchants with increased cash flow, a fast and efficient checkout process, and most recently, the ability to implement self check-out stations.

These benefits provided to members or consumers and merchants come only through substantial effort and cost to the credit union or financial institutions who manage these programs along with their associated networks, processors, software vendors, card production services and a variety of other vendors. The proposed 12 cent cap will impact me and other credit union members. I know my credit union, SAFE Credit Union, cannot absorb a 72% reduction in debit card interchange.

SAFE Credit union will impose fees on me and our members to pay for the costs of transaction accounts that the current debit card interchange provide. I'm concerned that an increase in fees will force already financially struggling members to close accounts and join the un-banked consumers. I don't believe that retailers will lower their prices commensurate with the reduced interchange they are charged to help our members maintain their credit union accounts. Therefore, SAFE Credit Union will not "eat" the loss of interchange revenue while still incurring the expense of defaulted payments, issuing/reissuing debit cards, and maintaining internal costs of providing the convenience of plastic to me

and our members.

It also does not make sense to assume that the exempt financial institution rule will benefit the credit union. SAFE is not exempt from the two network rule which would increase net costs to the credit union for its debit card program.

I am asking you, the Federal Reserve, to go back to the Senate and/or the House to educate them about the impact to credit unions and members like me. Ask them to repeal the proposed price-fixing regulations that do nothing to reduce out of pocket costs to me and other members.

If a repeal of the proposed regulations is not provided, then I ask you, the Federal Reserve, for support in the following areas:

1. Consider all costs of operating a debit card program including fraud losses, technology, processor costs, infrastructure, card production, and maintenance against the overall benefits provided to merchants like cash management, reduced infrastructure related to bad check recovery, immediate availability of funds, more efficient checkout process and deferred costs related to fraud.
2. Eliminate the provision to require all financial institutions to support two unaffiliated networks.
3. Ensure there is some provision in the rules to require the merchants to return their windfall to me and other members.

Thank you for your consideration of the concerns I have outlined in this letter.

Ron Seaman
SAFE Credit Union