From: Heather Lucaini

Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:
I have reviewed the Federal Reserve Board's proposed new Regulation II, Debit Card Interchange Fees and Routing and would like to offer the following comments. I would like to see the rule include language stating that the payment card networks are required to develop a two tiered interchange fee structure at no charge to the issuer. Issuers with an asset size of under $10 billion will be provided with an exemption under the proposed rule; however, it will be difficult for the exemption to work if the networks are not required to operate with a two tiered fee schedule. I am also concerned that even if a rule is put in place to require a network to have a two-tier schedule, it could negatively impact the smaller asset size issuers. The networks could choose to dramatically decrease the current interchange rate for smaller issuers. The networks may do this because of pressure from the merchants and/or because of pressure from large issuers to do so. As the data showed, the cost that a large issuer incurs to support a debit card transaction is much higher than the $.12 cap. Even though smaller issuers will be exempt from the rule, I believe that the proposed interchange fee cap is extremely low. The $.12 cap does not include operational and fixed expenses that are incurred for fraud losses, fraud prevention costs, card issuance, network fees, overhead expenses, and data security for debit card transactions. These can be substantial costs. All financial institutions are watching operational expenses and plastic card fraud continues to be a high cost of offering a card program to consumers, the operational cost of fraud prevention should be considered by the Federal Reserve. Financial institutions take on the risk associated with these card programs, with merchants able to avoid the risk exposure. I feel the $.12 cap per transaction could also negatively impact consumers because financial institutions will begin to charge more fees to make up for the loss in income from debit cards. The financial institutions will need to find some means to offset the cost to provide this popular service to consumers and most likely that will be in the form of new fees or increases in existing fees charged to

consumers. Also, it is questionable that if merchants pay less interchange fees, they will be willing to pass that reduction along to consumers. Debit cards are extremely popular with consumers and I am concerned that all these changes will negatively impact the consumer. Some larger issuers are already adding new fees or increasing existing fees to help make up for the anticipated loss in interchange fees. These fees will come directly out of the pockets of consumers. Smaller asset size issuers will also be forced to impose additional fees on consumers over time if they are ultimately impacted by the $.12 cap. I request that the Federal Reserve reevaluate the $.12 cap that has been set for the larger issuers. If a cap must be established it should include all the costs of managing a debit card program. Another concern is it is not clearly stated in the rule that merchants cannot charge additional fees for cardholders using a debit card issued by a smaller issuer. Merchants should not have the right to decline debit cards issued by smaller issuers. I recommend that be clearly defined in the rule. I am quite concerned that smaller issuers will, over time, be negatively impacted by merchants who encourage consumers to use cards issued by the larger issuers. The technology to support two PIN networks and two signature networks, as required with Alternative B, does not exist today and would require additional costs from issuers and merchants to deploy the technology to support it. More costs without the income to support it with the $.12 cap. Treating ATM transactions as electronic debits and applying the ATM routing rules will not add benefits to the consumer. This could also be more burdensome to the ATM provider because they would have to settle with multiple networks and to operate under multiple sets of rules and requirements. By having to manage multiple ATM networks this could lead to the ATM owner to pass on additional fees to the consumers because of the increased costs to provide the ATM service. I am extremely concerned by how this entire proposed rule can negatively impact consumers as well as the entire financial services industry. Debit cards are extremely popular with consumers and growing more so daily because of their convenience and ease of use. At the same time, they provide a safe, efficient and guarantee of funds for payment to merchants. While merchants do pay interchange fees to process the transaction, they receive their funds immediately and do not have to deal with the challenges of collecting returned checks or dealing with fraud. Also, it is costly to handle and protect cash; debit cards greatly reduce the expense associated with that form of payment. Statistics show that mechants benefit financially from the offering of debit card payments. With a lowering of the interchange fees that the merchant pays, I find it difficult to believe that these savings will be passed onto their customers.   I strongly suggest that the Federal Reserve reconsider the requirements set forth in this rule. While I recognize that the law regarding the interchange was intended to help consumers, I believe it will actually end up negatively impacting them. Thank you for providing an opportunity to comment on the proposal. Sincerely, Heather Luciani Marshall Community Credit Union