From: David Corriero

Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 22, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
Name: David Corriero
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
docket No. R-1404 and RIN No. 7100 AD63 I am writing to express my extreme concern with the provisions outlined in Section 1075 of the Dodd-Frank Wall Street reform and Consumer Protection Act surrounding reasonable interchange transaction fees for electronic debit transactions and the limitation on payment card network restrictions. I work for a large financial institution as the director of a relatively small debit card operation. My business line is a very small portion of my institutions overall service. I provide debit card processing to broker dealers in support of their asset management accounts. Some of my clients are very large brokerage houses that issue debit cards to their customers to access assets in their money market accounts. As is true within my organization, my clients debit card business is a small portion of the financial institutions overall services. The interchange revenue I earn I either keep or is passed to my clients as their only revenue to support this service. Therefore this amendment could be disastrous to those programs as well as mine. Before I get into more detail on how this will negatively impact me and my clients I want to step back and discuss my general concern with the direction my government is headed. I see this amendment as an example of government price fixing. Although I do not believe that the government should be involved in any price regulating, I understand how an argument can be made that our government, in the best interest of the people should engage in price regulating for essential goods and services such as electricity and oil. As debit cards are not an essential service I do not believe the government should be involved. Our economy and society was built on a free market where supply and demand has established price. This is what has made our country strong and has allowed us to be the worldwide leaders in innovative products and technology. Furthermore, I am concerned that this administration has allowed lobbyist representing large merchants to push through legislation that only benefits merchants and does not consider other economic implications of such actions. More specifically, this amendment will cause a reduction in revenue to

debit card issuers by approximately 75%. In talking internally as well with my clients I believe that institutions will respond in various ways. They will increase cardholder fees to recover lost revenue, and/or reduce staff to decrease expense. I am also sure that product innovation and enhancement will dramatically decrease or stop altogether. All of these issues will be even more likely at large institutions with small debit card portfolios like mine. Some may even need to shut down their services if they cannot accomplish any of the above items to warrant staying in business. Furthermore, excluding major expenses as this proposal has done, demonstrates the lack of understanding of this business. When your only source of revenue is interchange you have to include all expenses like fraud prevention, fraud losses, network fees, and fixed costs when determining profitability. The Federal Reserve proposal has made some comments indicating that processing debit card transactions is similar to processing checks. This also demonstrates the lack of understanding of our business. Processing checks, even with the advent of Check 21 and image exchange, continue to allow 24 hours for banks to make payment decisions. Debit card transactions are processed real time. Therefore, within seconds a financial institution must make a decision to authorize a transaction. This requires expensive real time authorization technology to ensure transactions are approved or declined appropriately. Even with this technology financial institutions have a risk of unsecured debits if merchants force through transactions or delay in processing transactions. Most troubling are statements that the Federal Reserve has made in their proposal surrounding their perception
of the results of this proposal. The original intent of this amendment was to benefit the end consumer. The Federal Reserve stated in the proposal that they do not anticipate merchants will pass their savings on to the consumer. They also indicated that financial institutions can charge fees to cardholders to offset revenue loss. If the end result does not result in consumer benefit then why is this proposal continuing to be considered. The network restrictions that have been proposed are also concerning to me. I am not sure I understand why this proposal will help the consumer. I believe that the intent of this proposal is to enable merchants to have multiple routing options at the point of sale. My assumption is that the merchant lobbyists pushed this through to allow merchants to route transactions the cheapest way. I agree that merchants should have their choice, but I believe that they have this option today based on the result of a lawsuit Wal-Mart filed against Visa nd
MasterCard. A few years ago, Wal-Mart prevailed over Visa and MasterCard forcing a reduction in debit interchange as well as allowing merchants to choose their routing of transactions. In addition, this provision will increase a financial institutions expense. As with most businesses, discounts are given by the various networks based on volume. So if a financial institution is forced to have multiple networks, these discounts will be lost. Expense will further increase if financial institutions are forced to have two PIN networks and two signature networks. In summary, this amendment not only goes against the economic theory of a free market, but will dramatically reduce revenue and increase expense for many financial institutions around the country, putting businesses at risk and increasing jobless rates, with no benefit to the end consumer. So I ask that you either, help to get this amendment reversed or at the least defer a final decision for another 2 years to ensure all impacts can be vetted.