



February 21, 2011

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

Re: Debit Fee and Routing Regulations – Docket No. R-1404

Dear Ms Johnson,

On behalf of the League of Southeastern Credit Unions (LSCU), representing approximately 300 state and federal credit unions throughout Alabama and Florida, and the 6 million consumers and small businesses they serve, I want to express very serious concerns about provisions in the proposal to regulate debit interchange fees issued for comment by the Federal Reserve Board.

The Federal Reserve Board's (Fed) proposed rule regarding the regulation of debit interchange fee income, as mandated by the Dodd-Frank Act will be detrimental to credit unions. While the Fed has made some efforts to address a few credit union issues, the new proposal raises many serious concerns. The Act requires an exemption for small issuers of \$10 billion or less in assets from the interchange fee rate setting but the proposed rule fails to include the necessary enforcement provisions to be effective. As a result of the lack of enforcement for the exemption, small issuers may well be subject to the same fees required for large issuers under the proposal. Credit unions in Alabama and Florida and across the country are very concerned with the impact of the Fed's regulation of debit card interchange fees and routing. The Fed should take immediate steps to protect small issuers from lower interchange fees. The Credit Union National Association (CUNA) has recently estimated that up to 67% of credit unions will lose money on their debit card programs if the interchange regulations reduce interchange-related revenues by 40%. Credit unions in both Alabama and Florida have contacted the League and confirm to us that absent significant changes to the enforcement of the small issuer exemption, this proposal will significantly impair the ability of credit unions to offer debit cards without finding offsetting income. While credit unions absolutely do not want to increase fees on members, like any entity, costs of this magnitude cannot simply be absorbed. Ultimately, it will be the consumer that pays the price.

The Fed's proposal of two possible alternatives with respect to the interchange fee rate setting to be applied to card issuers with more than \$10 billion in assets could also be applied to credit

unions below this asset threshold if the establishment and maintenance of a two-tiered structure cannot be assured: "Alternative 1," under which an issuer could only recover the greater of 7 cents per transaction (the "safe harbor") or its actual costs of the electronic authorization and settlement of the transaction up to a maximum 12 cents; or "Alternative 2," which would allow interchange fees that vary with the value of the transaction up to a 12 cents per transaction cap. Neither alternative would provide enough related income for credit unions to avoid raising fees on other products and services previously provided without charge to members. Reducing debit card fees will ultimately hurt credit unions' debit card programs with the extent of the damage unknown at this point. The benefits of debit card programs are not free and certainly come at a price to credit unions. Consumer retailers are asked to pay their "fair share" of this cost through interchange fees. A reduction in these fees would significantly impact the debit card features credit unions will be able to offer and will undoubtedly reduce the ability of many credit unions to compete with other financial institutions in their local markets. We foresee the day when the marketplace will negatively impact the two-tiered pricing structure proposed by the Federal Reserve Board. We anticipate merchants migrating to debit cards that offer the mandated lower-cost fees and ultimately forcing local credit unions to adjust their interchange fee structure to remain competitive. We urge the Fed to consider all costs associated with operating a debit interchange system, including all fraud prevention, new technology, and audit costs designed to reduce potential fraud. The proposed cap on interchange fees will hurt members and ultimately credit unions themselves. We disagree with this outcome in the strongest terms and urge the Board to reconsider taking such a path.

Another aspect of the proposal we view as having a negative impact on credit unions is the lack of an exemption for small institutions from the rule regulating network exclusivity and routing. No debit card issuers, including credit unions, are exempt from the parts of the proposal that prohibit exclusive networks and allow merchants to choose how a transaction is processed. With respect to network exclusivity and routing, the Fed proposes to adopt either: (A) "Alternative A," which would only require a credit union to issue debit cards that could be processed by two unaffiliated networks, such as one PIN network and one unaffiliated network using signature authorization (or two unaffiliated PIN networks, or two unaffiliated signature networks); or (B) "Alternative B," which would require a credit union to issue debit cards that could be processed on at least two unaffiliated PIN networks and also on at least two unaffiliated signature networks.

We do not doubt that the proposal put forth by the Fed was presented with the best of intentions. However, if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly, small credit union issuers will be severely disadvantaged. This will occur even if a two-tiered system proceeds and works as advertised. With this in mind, the LSCU urges the Fed to revisit this approach to network exclusivity and routing. If this reconsideration is not possible, given the complexities of the proposal, we consider the adoption of routing "Alternative A," which would only require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network the least objectionable of an unpopular obligation. Requiring more than two networks places unreasonable regulatory burdens on our credit unions with the smallest of those impacted the most.

I know credit unions, leagues, and concerned members throughout the nation have submitted comments for your consideration. In view of this overwhelming response to your call for comment on the issue, I urge you to request from Congress a delay in implementation of up to two years so the regulation and its impact on credit unions can be thoroughly considered. It's important that the Federal Reserve and Congress note the urgency of those speaking out and consider their concerns.

If you have any questions, please feel free to contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick La Pine', with a stylized flourish at the end.

Patrick La Pine