



MISSOURI CREDIT UNION ASSOCIATION

February 22, 2011

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

RE: Docket No. R-1404 and RIN No. 7100 AD63

Dear Secretary Johnson:

On behalf of Missouri's 139 credit unions, the Missouri Credit Union Association would like to communicate that we strongly oppose the proposed rule to regulate debit interchange fee income and debit card routing under the Dodd-Frank Act.

Our concerns are:

The Act provides an exemption for small issuers with assets under \$10 billion from the interchange fee rate setting limitations that will apply to larger issuers, but does not include provisions specifically designed to enforce the exemption. We would ask that the Federal Reserve Board include provisions that ensure the networks will provide a two-tiered structure that accommodates higher interchange fees for small issuers.

The Act also directs the Federal Reserve to regulate debit interchange routing and the new prohibition on exclusive arrangements between networks and issuers. The debit routing and exclusivity provisions will apply to all debit card issuers, regardless of asset size. Even if a two-tiered system is allowed and works in practice, these provisions may undermine credit unions' interchange income.

Under the proposal, two alternatives are offered for which you have requested comment. The first requires each issuer to participate in an independent signature network and independent PIN network. The second would require issuers to participate in four independent networks.

Of the two options proposed, the first would be less burdensome on credit unions because it would only require issuers to provide debit cards that can be used over two unaffiliated networks. If the second alternative is issued, all issuers could face higher network costs.

In addition, under the routing provisions, small issuers could be further disadvantaged if merchants are able to steer transactions toward large issuers that must operate under lower debit interchange fees. We are particularly concerned about the impact of this provision on Missouri's credit unions that primarily fall into the small issuer category.

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Both of Missouri's U.S. Senators at the time of passage, Senators Kit Bond (R) and Claire McCaskill (D), recognized problems with the debit interchange provision and voted against the amendment which added Section 1075 to the Dodd-Frank Act. Sen. McCaskill has written a letter to the Federal Reserve outlining her concerns, which mirror those of financial institutions in Missouri – including credit unions.

The Missouri Credit Union Association recognizes that by including the debit interchange amendment in the Dodd-Frank Act, Congress left the Federal Reserve with an impossible task by requiring it to get involved in a contractual relationship. In addition, the Federal Reserve was restricted from considering most overhead costs and fraud expenses. These restrictions prevent the Federal Reserve from being able to fully and accurately address the debit interchange issue.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael V. Beall". The signature is fluid and cursive, with the first name "Michael" and last name "Beall" clearly distinguishable.

Michael V. Beall, Esq.  
President/CEO