From: John Barbella

Subject: Reg I I - Debit card Interchange

Comments:

Dear Sir or Madam:

As a member of the Network Branded Prepaid Card Association (NBPCA), I am writing to express my deep concerns with the Federal Reserve's proposed rule to regulate debit interchange fees pursuant to the Durbin Amendment to the Dodd-Frank financial regulatory reform bill. While I believe it is critical to regulate network branded prepaid products, it is very difficult to understand why the Fed has set unreasonable caps on interchange.

As it is currently drafted, the Federal Reserve's proposed rule will have an adverse impact on the consumers, governments and businesses that use network branded prepaid cards. I am asking that the Federal Reserve give careful consideration to the unique characteristics of network branded prepaid cards as it undertakes its rulemaking. I also support and encourage congressional efforts to revisit and fully examine the complex issue of interchange.

I am concerned that the current Fed interpretation of the Dodd-Frank legislation lumps treatment of Prepaid in with large debit programs that were the true focus of this legislation. We have five primary proposed corrections that we believe should be addressed in modifying the current proposed rule:

1. Pricing needs to cover the full costs associated with prepaid transactions: variable and fixed.

2. PIN cash access should not be required to be added to cards that currently do not have this feature as it introduces the potential for fraud.

3. The full costs to address fraud need to be included in pricing.

4. The timing to implement these proposed changes should account for a full system change of this scope.

5. The exemptions outlined in the legislation need to be required to be honored.

Interchange: Interchange is the fee paid that covers the costs across the chain of businesses delivering the fast payment, consumer and merchant fraud protection, and systems to support these services. The Durbin amendment dictates that the interchange costs be set to be 'reasonable and proportionate' to the actual costs. However, the current caps are set at 1/5 of the costs outlined in the Fed's own study; the costs captured are only the variable costs and do not consider the fixed expenses incurred; and the costs do not include a key piece of the delivery chain - Program Managers.

Network routing: Adding PIN networks to cards that do not currently have them opens up a large group of cards/funds to incremental and unnecessary fraud

Fraud: The fraud prevention efforts vary greatly depending upon the card type and where it is used (e.g. a health card vs. a $25 non-reloadable gift card). Current wording wouldn't support the costs of delivery and innovation for prevention of fraud.

Timing: Compliance with this bill will require massive changes to the entire system. With the 90 days provided in the bill, companies will have to either operate out of compliance or temporarily shut down delivery.

Exemptions: Lawmakers in drafting this bill clearly intended to preserve the unique benefits of prepaid to target populations. The proposed rule doesn't enforce these exemptions.

By moving down the current path, we run the risk of taking away a critical and innovative payment tool at a time when government, business and consumers are in need of ways to reduce costs and have secure instruments to access the financial mainstream.

Sincerely,

John Barbella
The Bancorp Bank