

From: Douglas Grout  
Subject: Reg I I - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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Regulation II; Docket No. R-1404 RIN No. 7100-AD63 Debit Card Interchange Fees and Routing Dear Federal Reserve Board: I am writing to express concern regarding with the Federal Reserve Board's recently proposed regulation for debit card interchange fees and routing. From a consumer and as an executive of a credit union perspective, the maximum fee of \$.12 would have a material effect on the card issuer's financial condition with limited to no impact on the consumer. I agree that Consumer Protection is important, but the Federal Reserve and Congress should not enact laws/regulations that effect companies to this magnitude. And I suspect that in the end, consumers will pay for the loss of revenue and not receive better pricing from the merchant. In fact it will likely hurt consumers probably by higher banking fees in other areas or if drastic enough, a financial institution may need to discontinue a debit card program altogether. It makes zero sense to implement such a catastrophic reduction in this proposal. In essence the government is essentially picking corporate winners (retail) and losers (credit unions, banks, Visa, and MasterCard) instead on letting the free market reign. In a capitalist environment, if the merchants do not like the interchange fees they should look to adjust their pricing strategy to accommodate the overhead expense. Isn't that what a normal business does when determining an appropriate price? I do not see this as predictive price by the industry. There are many players involved to sustain the system for the betterment of the consumer. When credit and debit cards first came to market I will bet merchants appreciated the payment method and that it opened a new door for increasing sales and operational efficiency. Credit and debit cards brought convenience to retail merchants. Credit and debit card acceptance limits errors, provide savings in labor and increases the number of customers that can be attended to. Are merchants required to participate in the debit/credit payment system? Please remember that merchants make the choice to join the debit card network. Why? Simply because they realize that the benefits of attracting more customers simply

outweigh the cost of the current interchange fee. This Federal Reserve regulation does not hold the other side accountable for passing the cost reduction onto the consumer. A major retailer, where profits are everything, will benefit its shareholder by not passing the cost saving. So by introducing such a devastating reduction to the system will only benefit one party in the whole process, and as I have mentioned, it is not the consumer. The Federal Reserve should implement reasonable interchange regulations that will allow small issuers to continue to be protected from lower interchange fees. I am concerned that the proposal does not include provisions to enforce the small issuer exemption. Even though many credit unions and banks are excluded, it is because of the exemption merchants could refuse to take a debit card. It could also cause merchants to refuse Social Security, State unemployment and other government benefit debit cards that were not intended by the Durbin Amendment. I urge the Federal Reserve to use its authority to reinforce the small issuer exemption and ensure that it works as Congress intended. The proposed debit interchange rates also concern me, especially if the establishment and maintenance of a two-tiered structure cannot be assured. The Federal Reserve should consider all costs of operating a debit interchange system to the maximum extent allowable by law, including all fraud prevention costs such as the cost of new technology that reduces potential fraud. But more than costs, a margin for net revenue should be considered. If every merchant had to price by only use the actual cost, no one business would remain open. Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. I therefore urge the Federal Reserve to consider carefully the intentions of the act along with balancing the financial impact to small issuers of this proposal consumer protection. Unreasonable regulatory burden will cause my credit union to have a negative impact on service to our members. Sincerely, Douglas Grout