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Subject: Reg I I - Debit card Interchange

Comments:

Date: Dec 23, 2010

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
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The proposal to reduce the debit card interchange rate to 7-12 basis points, although required by law, usurps the market's price setting mechanism. While the intent would seem to be to benefit both consumers and retailers by lowering the cost of business, price fixing virtually always leads to unintended consequences and likely will do so again in this case. Making the PIN or signature debit card businesses less profitable will simply encourage banks to (1) entice card holders to use pre-paid debit cards or credit cards rather than debit cards and/or (2) raise fees for other services such as ATM withdrawals or checking fees. Retailers, who will profit from the reduction in related debit card fees may choose to hold onto the gains as added profit or use the savings to lower product prices. They will probably do a combination of both. The net financial result is that consumers would save a little bit from retailers who pass through savings but will see increased banking fees necessary to offset to forced reduction in debit fees. Functionally, the action will force banks to move customers away from debit cards contrary to the strong trend in recent years of increased debit card use. Consumers like debit cards for obvious reasons. They prevent consumers from spending beyond their means, they allow consumers to carry less cash, they are convenient, they offer attractive perks when used, and they save consumers expensive ATM withdrawal fees. Policy that pushes consumers in different directions than normal market forces would take them only seems positive if the desired shift results in some form of societal gain. I don't see how the substitution of cash, credit or prepaid debit cards for PIN or signature debit cards is any improvement. You are required by law to enforce a rule requiring banks to charge "reasonable" fees. I think the burden is on the Federal Reserve to show that current fees subject to normal market forces, are not reasonable. The perverse outcome is going to be that the lower you make debit card interchange fees, they more costs will be shifted in detrimental ways and the more card usage will shift away from debit. James M. Meyer Chief Investment Officer Tower Bridge Advisors