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Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:

The Debit Card Interchange Fees proposed are simply insufficient to cover the operating costs of banks and networks processing debit card transactions, irrespective of the routing of said transactions. Bank of Eastern Oregon contracts with a major processor for debit card processing services, has internal software and hardware to support debit cards and transaction processing, and utilizes other services for managing transaction and card disputes and protecting our customers from fraud and abuse. We know that our costs are very competitive. We assume our card related costs are fully inclusive of those passed on by our processors, and are representative of all but the largest in-house processed financial institutions. Bank of Eastern Oregon costs per point-of-sale debit card transaction is \$0.2018, of which \$0.0753 are direct costs, \$0.0615 are indirect costs, and \$0.0650 are directly tied to fraud prevention and risk management. None of these cost are account related. With an average revenue per debit card transaction of \$0.29, this leaves an operating margin of less than nine cents per transaction, or roughly 30%. That is a very small margin given the increasing risk profile of cards. Accordingly, the seven and twelve cent interchange numbers identified in this proposal are unreasoned, do not reflect reality, and if implemented, will force card issuers to restructure the pricing of these services to consumers in order to earn a return on investment commensurate to the risks we take to offer the product. As usual, good intentions rarely match up with reality, and this effort at 'price-fixing' will result in (as was intended by the big box stores) redistributing processing costs to someone else; we both know that will end up being the consumer. The legislation requiring this rule making was poorly thought out, but gave the FRB flexibility, and an opportunity, to implement the rule in an effective way. It looks to me like you are missing that chance and the FRB will be chasing its collective tail for years trying to fix a new mess you are creating for the future. Gary Propheter EVP & Chief Operations Officer Bank of

Eastern Oregon