

From: Phyllis White
Subject: Reg I I - Debit card Interchange

Comments:

Phyllis White

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Federal Reserve Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Federal Reserve Board:

We are very concerned that this regulation does not properly address two key items.

1. The verbage says that it will protect the small issuers but there is no provision that I can see that will force a two-tiered structure but my main concern is that if even if VISA and other institutions like them have to create this two-tiered structure, they will have to pass the expense to the group that is causing the expense. ME! That is the way every business in America is structured, including yours. My problem with this is that my VERY, very, very small credit union is already losing money on debit cards and we can not afford to pay more so that we can have a two-tiered system just to provide the exact same service to the members that we already provide. We will have to pass the expense to the consumer. Is that what you intend? Will the merchants reduce prices to the consumer? Unlikely.

Yes, the consumer should be the one that pays the most for debit card convenience. Right now, they pay nothing except higher prices at stores which they do not even realize. The merchants should pay for it also, after all, they get some kind of profit. MY CREDIT UNION ONLY GETS THE INTERCHANGE INCOME which is not a profit stream at this point. I would be thrilled if it were.

Asking consumers to give up debit cards will not go over well. There is no law that says a merchant has to accept debit cards, but there needs to be a law that they have to accept my card without complaining even if they have to pay more. I can foresee a merchant telling my members that they need to go to a big bank and get a debit card because the credit unions cost too much. What is my member going to think? They are going to think that we are overpaid, never realizing that we were actually underpaid in the first place.

Does the .12 cents take into consideration the wages of the person that answers the phone for the member that has questions about a debit card transaction? How about our light bill? Our gas bill? I would like the government to do anything for .12 cents. It would not happen - never in a million years.

2. The current pricing does acknowledge that they did not know how to include pricing for fraud prevention. This is NOT cheap. Maybe for a huge financial institution it is but for us it is not. They must consider those of us that do NOT have economies of scale.

I have personal knowledge that the merchants pay fees to the banks that connect their business to VISA. Pay close attention to the next sentence. **BIG BANKS OVERCHARGE EVERYBODY.** The merchants are pointing their fingers at VISA (because the banks blame it on VISA/Mastercard pricing) but it is really the bank that the merchant deals with that is getting the excess monies. If merchants had shopped around instead of believing this lie, they would have been saving money a LONG time ago. Have them call me and I will connect them with a bank that charges reasonable fees. Most of this regulation is truly unnecessary in the first place and is directed at the wrong parties in the second place.

I understand that the bank that is doing this processing needs to be paid for doing it. The question is, how much should they get paid? This is not addressed in this regulation at all.

Merchants get the benefits of impulse buying, consumers get the convenience, as an issuer, I get demands from the consumer to provide this service and do it at no cost to the consumer. If I can not recoup the expenses then I will have to stop offering debit cards. If I stop offering debit cards, my members will go somewhere where they can get one. What do I do? Close my doors? It is MUCH cheaper for me to cash a check and let the consumer walk with cash and have that be the end of my expense. When I give them a debit card, my expenses keep going and going and going. The same \$500 dollars cash is much cheaper to provide than 15 or 20 debit card transactions. The issue is that most people would not pull cash out of their wallet 15 or 20 times because they would realize that they are spending too much money. Guess who does not get as much business when consumers carry cash: go on, take a guess.

We do not get enough income from this to pay all of the processing expenses that goes with debit cards. Especially if you consider the fraud losses and fraud prevention technology. If we failed to provide this service to the consumer, you would be passing a law to make us do it and you know it.

The proposed debit interchange rates also concern us, especially if the establishment and maintenance of a two-tiered structure cannot be assured. The Fed 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.

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. We therefore urge the Fed to adopt routing "Alternative A," which would only require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our members

I would try to be available to anyone that would like further information regarding this. As a CEO of a small credit union I wear a lot of hats so sometimes things are really hectic but I would love an opportunity to speak to anyone that cares to listen.

Sincerely,

Phyllis White