

From: Heather Nally  
Subject: Reg I I - Debit card Interchange

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Comments:

Secretary Johnson

Thank you for taking the time to review the concerns we have with Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. The Durbin amendment was added to legislation to help merchants deal with the supposed monopolistic interchange expenses they are facing. Merchants made the case that interchange payments were ultimately hurting customers and if interchange were more closely regulated, they would be able to pass on significant savings to their customers.

Now that the legislation is passed and the Federal Reserve is trying to make rules for financial institutions to follow, it has become clear that the original intent and purpose of the law is not going to be reached. Merchants will receive significantly lower interchange rates as a result of the proposed Federal Reserve rules but even the Federal Reserve is concerned that merchants will not pass these savings onto their customers.

There was also a specific segment of the amendment that excluded issuers under \$10 billion in assets. Our credit union is significantly less than that asset size and it appears that the Federal Reserve has not been able to implement rules to allow this small issuer exclusion to function. Small issuers are at a significant disadvantage already in this volume based business and this new amendment will add increased challenges to the smaller issuers that work hard to provide consumers another choice in the market of large banks.

It is also very concerning that our Congress created a law that dictated the maximum price that will be charged based on certain direct expenses only. Every product that my organization offers has more than limited direct expenses and has some form of overhead and other expenses attributed to it. Fraud was specifically excluded and could make up a large portion of our overall expense. If issuers are asked to deliver a product to the market at no more than limited direct expenses then we will be forced to allocate the excluded expenses (including fraud) and the overhead to other products or to our membership base. The expenses did not go away, but the income to support them did. There are very few industries that have this level of government regulation and control and it does not let the free open market operate at an efficient level.

In closing, please consider the ultimate results of this legislation on my membership. As an issuer we were not part of the problem and we worked hard to put an efficient payment processing platform into the hands of our members. We don't deserve this new legislation and it will ultimately harm the consumer and the issuer while the merchants see higher profits. Not exactly what Congress had in mind when creating this law.

Sincerely,

Heather Nally