

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

Comments:

January 17, 2011

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

Dear Federal Reserve Board:

I have sent comments previously about this regulation but now have discovered a new item to comment on.

I just read that one of the alternatives would be that we have to reissue all of our debit cards to enable the two tier pricing.

We have a huge issue with having to reissue all of our plastics; THEY COST MONEY. This is money that we are already being short-changed on.

With the FACT ACT legislation, we HAD to buy new VISA applications that had the proper wording on them. We had to pay over \$1,300 to obtain 500 applications that complied with the FACT ACT. Do you see the problems we have with a lack of economies of scale????

And, just for your information, we did not have to change ONE item about our VISA procedures. We did absolutely none of the things that this act addressed but we had to pay over \$7,000 to get all of our statements and applications into compliance. We do not charge late fees. We never changed the due date. We never change the interest rate. We never did anything that would intentionally damage our members. Were we considered the "good guys"? Maybe. But did that help us at all? NO!

The members could have and should have shopped around and found the best deal and then the FACT ACT would not have been necessary. It is the consumer that is too lazy to find the best financial institution to do business with.

With the interchange legislation, it is the merchants that are too lazy to find the best financial instituion to do business with. Our previous comments have included references to the fact that the merchants CHOOSE what bank they will deal with. If they stop dealing with the BIG banks and started dealing with the little banks, they would save money. IT IS THAT SIMPLE.

Both of these groups would rather complain than get off their duffs and find the best deal. Then, somehow, it becomes your responsibilty to fix it FOR them.

Laziness is costing the federal government and this credit union a lot of

unnecessary time and money.

I know that my tiny credit union is NOT "getting rich" off of interchange income and while it may be that most issuers may come out ahead (due to economies of scale), I am positive that ALL of us will have to pass the debit card expenses that are not recovered by interchange income back to the consumer.

The plastic card payment system WORKS for the merchant, it works for the consumer, to penalize the processor because they are doing what is expected of them is hard to understand.

I would hope that this legislation actually kills the card payment system for everyone. If it just kills the small issuer, there is something very wrong with it. And don't even tell me there are carve outs, because unless someone is willing to pay my expenses, I am not going to feel the benefit of the supposed "carve out".

If you think ANY business, VISA and Mastercard included, could develop a new network, have it comply with all the regulations and run the network without collecting income to cover those expenses, you are looking at the world through rose colored glasses.

NO business could do this for long. A business model that does not allow for enough income to cover expenses is a business model that just plain does not work.

This regulation would force VISA/Mastercard to develop a new system. Who do you think is going to pay for it? The people that benefit from it - namely, THE SMALL institutions (THAT's US). Who should pay for it? The people that benefit from it (That's US). I understand that. My question is, why do you think you are doing us a favor by creating a "carve out" that could easily cost more than it is worth to us.

If we quit offering debit cards, or have to charge more than the big banks for them, what do you think will happen to my credit union?

We are a GREAT financial institution for our members and we would like to stay that way. If the little guys are forced out of the arena, then everyone will HAVE to deal with the big banks. Somehow, I do not think that this is the intended result.

Alternative A is the preferred alternative but it has its problems as outlined above.

On a different note, when are you going to introduce legislation that will penalize the negligent merchants that have their card files compromised? Those compromises cost financial institutions a lot of money and also cause an inconvenience to the consumers. Do we recoup any of those expenses? Not really. We just get to open up our pocket books and pay to reissue new plastics because of the merchant's negligence or theft by one of their employees.

The suggested amounts of .07 cents or .12 cents are both very unrealistic figures even for the "big boys". It clearly does not cover any costs of the "people" (you know, those warm bodies that we employ) that are behind

the scenes that process, balance, do adjustments, talk with members, order cards, try to explain merchant breaches, and deal with fraud at all levels. What should we do with the "people" part of the bill? Should we increase unemployment by eliminating their positions?

There is no law that a merchant has to accept plastic cards for payment. They accept plastic cards because without them, they would probably go out of business.

Someone has to pay for the plastic card service. It should be the merchants and the consumers; after all, they are the parties that plastic cards benefit.

Electricity costs the merchants money. They could make substantially more money if they only had to pay the electric company what it cost the electric company to get the electricity from the "pole" outside the store into the store. When will you legislate that the electric company can only charge for the cost of getting electricity into the store from the pole outside of the store? You will not do that because it does not make sense. There is a huge process involved in getting electricity to the pole. Would you tell the electric company, too bad, you have to pay all the expenses involved in getting the electricity to the pole? You can only charge the expenses involved in getting the electricity from the pole into the store. Would you then make "carve outs" for the small electric companies? How well do you think this would work for the electric company?

We urge you to do what it takes to make sure that there is a hearing about the interchange proposal.

In the best interest of the consumer, why don't you pass a law that consumers must pay with cash. That way, they will never pay an NSF fee. If they do not have a credit card, they can never be charged 29.99% interest. If they do not have a debit card, they could save all kinds of money. Just think of all the good you could do.

Again, there needs to be a hearing on this topic. Invite me to it. I will show up even if I have to sell candy bars to raise the funds to get there.

I am the CEO of St Joseph Mercy Hospital Pontiac Federal Credit Union (a 12 million dollar credit union), married, 48 years old, mother of 3, grandmother of 3. I am a consumer and I am a business owner.

Sincerely,

Phyllis White