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Subject: Reg I I - Debit card Interchange

Comments:

Date: Jan 25, 2011

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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January 25, 2011 Office of the Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue NW Washington, DC 20551 RE: Federal Reserve Interchange Proposed Rule - Docket No. R-1404 Dear Federal Reserve Board: As a credit union, Belvoir Federal Credit Union, we are very concerned about the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. There are several concerns that the Credit Union has with the proposed regulation and we respectfully request that the Federal Reserve Board not accept the draconian recommendation of the Federal Reserve staff which proposed a maximum of \$.12 cents per debit card transaction. The first concern is the two-tier system. There is nothing in the regulation to require that the two-tier system be established. If the two-tier system should be established, there is nothing in the regulation that will guarantee that the two-tier system will be maintained at separate cost and income structures. In fact, simple economics and market conditions would suggest that the debit card transactions costs will move down to the lowest cost. This is will happen for two reasons: 1) the largest financial institutions effected by the \$.12 maximum debit charge control a tremendous portion of all debit transactions, and 2) the largest retailers have control of the networks that they will use, and therefore, will naturally use the lowest cost alternative. These two market drivers will eventually cut the amount received on all debit card transactions as large retailers will use the least cost alternative and by-pass the small financial institutions with the resultant negative effect on smaller financial institution's interchange income. Since the establishment and maintenance of a two-tiered 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. The second concern is that in establishing the proposed cost, the Federal Reserve staff only looked at the largest institutions which are inherently more efficient than a smaller institution. Belvoir Federal Credit Union's cost to process debit card transactions are \$.29 for a signature based

transaction and \$.14 for a pin based transaction which gives us an average cost per transaction of \$.23. Needless to say that if the current proposal is approved as is, then this Credit Union stands to lose at least \$.11 per debit card transaction. These are costs we pay the processors which does not include our staff and the internal structure that we use to process debit card issues. If we were to include our staff time then the cost rises to an average of \$.29 per transaction. As is noted in the paragraph above, our costs are way above the \$.12 noted in the Federal Reserve proposal. If the proposal is put in place as it is now, our Credit Union stands to lose \$ 1,035,604 a year in income which will cost jobs, a reduction in services and additional fees to the consumer. The Federal Reserve should look at establishing a reasonable debit card transaction cost not an arbitrarily low transaction cost. If the current proposal is enacted then the debit card transaction becomes a cost to all institutions which will result in effectively reducing the attractiveness of that transaction. In summary, Belvoir Federal Credit Union respectfully requests that the Federal Reserve take a more thorough approach to developing the debit card costs and include all financial institutions as the effect of this proposal will impact all financial institutions not just the financial institutions above \$ 10 billion in assets. Respectfully, Michael M. Ligon, CFO