From: Stark Federal Credit Union, Nino Gemma

Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Name: Nino Gemma
Affiliation: Stark Federal Credit Union
Category of Affiliation: Other
Address:
City:
State:
Country:
Zip:
PostalCode:

Comments:

I would ask the proposal as written be withdrawn or rewritten to address the concerns of smaller financial institutions such as ours (95 million in assets), and to re-evaluate the costs associated with the processing of debit card transactions. By your own admission, the proposal does not fully address the exemption of financial institutions under $10 billion dollars. In its current form it leaves the door open to allow processors to restrict debit income for those institutions under $10 billion. This would have a severe impact on income. We would have lost $3000.00 at .12 per transaction for the month of December if we just looked at Debit interchange vs. our monthly debit card bill. This equates to a 65-70% loss in revenue. It took our program over seven years to get to levels where the income exceeded the bill. We do not have a rewards program. Your analysis of costs associated with a debit card program also falls short because it only considers the cost of a transaction and not additional costs associated with the product. Any cost analysis must include the cost to develop and implement a product. Those costs should include marketing efforts, bonding and insurance, personnel, and regulatory costs. Original pricing models would have included the merchant's gain in immediate funds availability and cost savings for depositing and transporting currency. The committee made mention of comparing debit cards with other forms of electronic payments and the same comparative costs. I think the key difference between theses systems is who developed the product and how product is used in the market. Risk of loss remains with the financial institution under debit card rules and the financial institution is given limited charge back rights. I have yet to win a charge back which have included receipts signed with incorrect names. Under other forms of payments, the risk of loss reverts back to the merchant. Merchants then have the ability to price their products by factoring in these costs. Least cost routing requirements may also have a negative impact on smaller financial institutions. Some processors charge additional fees, upwards of $200.00 per month, for each network. This will actually drive the cost per transaction up if only a limited number of transactions are processed via a particular network. Long term contracts mandate current costs of processing. We can process all transactions by only being associated with three networks. Lastly, the proposal makes mention that the consumer will receive little or no benefit from a merchant by implementing the proposal. I thought one of the main reasons behind the original bill was to assist the consumer with the hidden fees that were driving prices up? In its current form, the proposal will cost consumers more at the financial institution level. There are already clear indications of this occurring in the market place in anticipation of this regulation passing. Thank you for allowing me to comment on the proposed regulation. Regards, Nino Gemma Stark Federal Credit Union