



**Indiana Credit Union League**  
*The association of Indiana credit unions*

June 1, 2011

The Honorable Ben Bernanke  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> and C Streets, NW  
Washington, D.C. 20551

Dear Chairman Bernanke:

As the Federal Reserve (Fed) continues to finalize a final rule implementing the provisions of the Dodd-Frank Act impacting debit interchange fees and debit transaction routing, the Indiana Credit Union League would like to take one more opportunity to emphasize the importance that the Fed take strong steps in the final rule to protect credit unions and other small debit card issuers. The Indiana Credit Union League represents 90% of Indiana's 188 credit unions, which have more than 2.2 million members. We continue to be very concerned that the debit interchange rule resulting from the Dodd-Frank Act will have a very negative impact on credit union members and will result in higher deposit account costs for them and for all consumers. We are strongly urging Congress to take action to delay the implementation of the debit card interchange restrictions, but absent Congressional action, we want to again emphasize that we believe the Fed should take several strong actions within the final rule it is writing.

First, as you have acknowledged, we do not believe the small card issuer exemption from the debit interchange fee cap will work as Congress expected when the law was passed. We simply do not believe that the networks that operate the electronic payments systems will be willing or able to create systems offering a two-tiered interchange system, especially the way the Fed's initial proposed rule was drafted with no enforcement at all. If the small issuer exemption has any chance to work, we believe that the Fed must take steps in its final rule to enforce the small issuer exemption. This could perhaps include requirements that the network operators provide information to the Fed on how they are implementing and providing for a two-tiered interchange rate system.

Second, although small card issuers are not specifically exempt from the Dodd-Frank Act's provisions regarding interchange routing and exclusivity provisions, Congress did include language intended to protect small card issuers from discrimination by retail merchants. The law gives merchants the opportunity to route transactions on the network that offers the lowest cost for the merchant. This has the possibility of allowing merchants to steer customers away from using cards issued by small issuers like credit unions toward using cards issued by large issuers that are subject to the cap. While the law says that a merchant cannot discriminate against a card based on the issuer, there is, again, no enforcement mechanism to insure that small card issuers

are protected from this kind of discrimination. In addition to the unintended consequences from the interchange rate cap on credit unions, we believe that the network routing and exclusivity requirements also will hurt credit unions as merchants try to find ways to route consumers' transactions away from networks that credit unions utilize toward networks that are primarily processing transactions for the large issuers. The Fed should take steps in its final rule to protect credit unions and other small issuers from the possibility of discrimination against their cardholders as merchants try to drive customers to cards that offer the merchant savings.

Finally, we believe that the debit card interchange rate cap that the Fed initially proposed was not nearly sufficient for covering even the costs of an individual transaction. The proposed rule did not take into consideration all of the costs that might have been included in the calculation and we strongly believe that the Fed has the opportunity to factor in more costs that are identifiable to an individual transaction. The Fed should consider all allowable debit card costs as it develops a final rule to implement the debit interchange cap.

The Indiana Credit Union League understands that the Fed faces tight timeframes and is somewhat limited by statutory constraints regarding some elements of the proposed interchange rule. However, we believe that the Fed has more authority within the statutory framework to help insure that the protections in the law for credit unions, as small card issuers, function as Congress intended. We strongly believe that these small issuer protections provided a foundation for the passage of the interchange fee provisions in the Dodd-Frank Act and it is very important that the Fed do as much as it can to implement rules that enforce these protections.

Sincerely,



John McKenzie  
President  
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