NORTHWEST CREDIT UNION ASSOCIATION

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June 10, 2011

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Chairman Bernanke:

On behalf of Oregon and Washington's 193 credit unions with $46.3 billion in assets and over 4.2 million members the Northwest Credit Union Association calls once again upon the Federal Reserve Board to listen to the voices across America asking for careful consideration of how the cap in interchange fees as well as routing and exclusivity provisions will impact small issuers.

While a recent amendment in the Senate was narrowly defeated – garnering over half of the Senate, but not the 60 votes required to break Mr. Durbin's promised filibuster – it is impossible to ignore the groundswell of support for a more careful and complete approach to debit interchange reform. With your agency acknowledging receipt of over 11,000 letters on the proposed rule alone and over 500,000 contacts into Congress in favor of delaying the rule for more study prior to the recent vote, this is an issue that impacts main street America.

While many argue that small institutions (those under $10 billion in assets) have been "carved-out" of the legislation and will be protected from this proposed cap we know in practice that is highly unlikely. Even the Board itself has expressed concern that a two-tiered system is likely unsustainable. By including this provision exempting smaller financial institutions the intent of Congress was clear: small institutions must maintain interchange income to sustain current operations and programs. Therefore, it is the mandate of the Federal Reserve Board to implement a rule that takes into account that Congressional intent.

The request being made of the Federal Reserve is not to put a stop to this rule or water it down, instead the request is that there be a true accounting of the impact of capping debit interchange fees, taking into account the *real* costs of offering a debit card program and protecting the debit interchange income of small issuers.

Unfortunately, small institutions are already examining which programs they will have to cut – whether it's free checking, rewards programs, or lower interest rates – something has to give. As we are facing mid-June with no rule in place and an implementation date of July 21, 2011, those soon to be impacted by the rule are growing ever more fearful of the measures they will have to take to be compliant with whatever the new regulations entail.

While we do understand that a rule must be finalized by July 21, 2011 we believe there are a few steps the Board could take to help ease implementation. The Association urges the Board to establish a way to monitor the development and performance of the two-tiered structure.

Oregon Office
8205 SW Creekside Place, Suite 220
Beaverton, OR 97008

Washington Office
33301 9th Avenue S., Suite 200
Federal Way, WA 98003

Phone Numbers
+1 800 995 9064 toll free
+ 1 877 928 6397 fax

It is important to ensure that a dual structure is being carefully overseen by the Board and reported back to Congress on an annual basis or as needed. This would help to ensure that a two-tiered structure is both created and properly maintained.

We would ask the Board to consider all costs in establishing limitations on interchange fees for large issuers. The concern in maintaining a two-tier system is that with a cap, small issuers will be swept up as well. Should the Board determine that a fee cap is the best way to manage interchange fees we would ask that all cost factors including the costs of fraud prevention, maintaining networks, and managing accounts be included. Even the Board has acknowledged that not all of these factors were considered when setting the $.12 cap in the proposed rule. The more parity between the cap on big issuers and fees charged by small issuers will help lessen the incentive for retailers to favor one type of card over another.

Finally, the routing and exclusivity provisions contained in the original proposal, if implemented will have a proportionally greater impact on small institutions. While we understand the legislation did not exempt small institutions from these provisions, we believe it is clear that their implementation would have a greater negative impact on small institutions. We would ask that the Board carefully consider these provisions and consider an exemption for small issuers, and if not possible a delay in implementation of 24 months.

Of the utmost importance to our members, and credit unions across the nation is the ability to remain competitive and offer high-quality valuable services to member/owners. Enacting changes to interchange accounting without careful consideration, checks and balances, and continued oversight could be devastating to the credit union industry. We thank you for your time and dedication in implementing a rule with such intricacies and potential impact.

We would be pleased to answer any questions you may have.

Sincerely,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association