NAFCU

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Fred R. Becker, Jr.
President and CEO

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The Honorable Barack H. Obama
President of the United States
The White House
1600 Pennsylvania, Ave. NW
Washington, DC 20500

Dear President ~~Obama:~~ Mr. President

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing today regarding the Federal Reserve Board's (the Board) proposed rule on debit card interchange fees and routing restrictions. The Board's rule, as proposed would have a dramatic, negative impact for America's credit unions and would ultimately lead to job losses within the industry.

As you are likely already aware, the Board issued a proposed rule in December that would cap debit card interchange fees at twelve cents per transaction for debit card issuers with more than $10 billion in assets. The proposal would cut debit interchange rates by approximately 70 percent. The Dodd-Frank Consumer Protection and Wall Street Reform Act (Dodd-Frank), which directed the Board to regulate the interchange fees, included an exemption for issuers with less than $10 billion in assets. However, virtually every federal financial regulator, including Federal Reserve Chairman Ben Bernanke, National Credit Union Administration (NCUA) Chairman Debbie Matz, Office of the Comptroller of the Currency (OCC) Chairman John Walsh and Federal Deposit Insurance Corporation Chairman (FDIC) Chairman Sheila Blair, have expressed doubts regarding whether the exemption will be effective.

Credit unions are not-for-profit, member-owned financial institutions. The income generated by debit card interchange fees are returned to our members in the form of lower interest rates, higher savings yields and improved customer service. Accordingly, the dramatic loss in income represented by the proposed rule will be borne directly by America's 92 million credit union members. While some credit unions may simply charge new fees for checking accounts, others will be required to make more drastic cuts. Specifically, many credit unions are already considering reducing staff to compensate for income losses generated by the proposed rule. In a survey conducted by NAFCU earlier this year, 8.6 percent of credit unions responded that the interchange rule may require a reduction in staff. Meanwhile, the savings generated by merchants are unlikely to benefit consumers in any

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meaningful way. Home Depot's CFO reported earlier this year that it expects the interchange rule will add $35 million per year to its bottom line. A U.S. Government Accountability Office (GAO) study on interchange price caps in Australia found "no conclusive evidence exists that lower interchange fees led merchants to reduce retail prices for goods...."

The entire credit union industry is deeply concerned with the proposed interchange fee price cap. The small issuer exemption will likely prove useless and the capped rate will, in time, become the industry standard for all issuers regardless of size. This is particularly problematic as the proposed rate is based only on input from the relatively small number of institutions with more than $10 billion in assets. Thus, smaller issuers will likely ultimately be forced to accept the lower rate even though it is based on issuers with much larger economies of scale.

Further, the proposed rate does not adequately compensate even the largest issuers for the actual costs involved in maintaining a debit card portfolio. By the Board's own estimation, the proposed debit card interchange rate of twelve cents fails to cover the allowed costs of twenty percent of covered issuers. Debit Card Interchange Fees and Routing, 75 Fed. Reg. 81,722, 81,737 (proposed Dec. 28, 2010) (to be codified at 12 C.F.R. pt. 235). Further, the Board also acknowledged that the proposed rate fails to include all costs associated with processing debit card transactions. *Id.* at 81,734. Taken together, the extremely low proposed rate and the likely ultimate impact on all issuers are extremely problematic.

The Board's proposed rule is a recipe for disaster. The government should not be involved in setting prices for business-to-business transactions. At the very least, government imposed price caps need to adequately compensate debit card issuers for the cost of conducting a transaction. However, the proposed rule fails to reflect even this basic economic principle.

It is with this in mind that I urge you to weigh in on this important matter. The proposed price caps will ultimately burden credit unions and our member-owners at the expense of large, retailers, all while providing no tangible benefit to consumers. What's more, this rule will inevitably lead to job losses for America's main street financial institutions. NAFCU appreciates this opportunity to share its concerns. Should you have any questions regarding this matter, please feel free to contact me or Dillon Shea, NAFCU's Associate Director of Regulatory Affairs, at 703-842-2212.

Sincerely,

Fred R. Becker, Jr.

Cc Chairman Ben Bernanke