



February 22, 2011

Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Debit Card Interchange Fees and Routing  
Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

On behalf of Florida Commerce Credit Union ("Florida Commerce") representing approximately 37,000 members, we are pleased for the opportunity to provide this response on behalf of our members to the Federal Reserve's Proposed Rule on Debit Card Interchange Fees and Routing.

Florida Commerce recognizes that the Federal Reserve has been given what can only be characterized as a difficult and complex task of implementing the provisions of the Dodd-Frank Act in regards to Debit Card Interchange. We further acknowledge, and are thankful, that the Federal Reserve has made some efforts to accommodate the concerns of credit unions in its proposal.

We do, however, continue to have concerns with several of the provisions of the proposed rule. First, we are concerned that the Federal Reserve did not include calculations for the inclusion of fraud prevention costs, which can be used to adjust interchange fees under the Dodd-Frank Act. We believe this is an integral part and should be included as a part of this final rule. Fraud prevention and monitoring costs are the largest component of our costs and comprise approximately 70% of the total portfolio costs. Our true costs associated with this service would be approximately \$0.40.

We further note that in setting the 12 cent cap, the proposed rule excludes other costs that are shared with other products such as common fixed or overhead costs which may still be incurred in the absence of debit card transactions. This approach seems to exclude costs for infrastructure and other costs necessary for the handling of customer service, cardholder inquiries and complaints. Likewise, smaller institutions do not have the economy of scale to perform these functions within this cap. We believe the proposed cap will result in a significant cut from the current free market rate and believe the Federal Reserve should adjust the rule to uphold free market principles to the extent possible. As such, we request that the Federal Reserve reconsider the approach on fixed costs.



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Next, the proposal references the exemption contained in the Dodd-Frank Act for small issuers of \$10 billion in assets or less from the interchange fee rate setting, however, the rule provides no mechanism to enforce the exemption. As a result of the lack of enforcement for the exemption, small issuers may, by default, be subject to the fees that will be required for large issuers under the proposal. We suggest the rule be amended to include provisions to reinforce the exemption and ensure that small issuers are indeed exempt as Congress intended under the Act. Without this, the consumer could be steered away or disallowed by merchants from using small institutions debit cards.

Finally we are concerned with the proposal rule in that it does not exempt small institutions from aspects of the rule regulating network exclusivity and routing. No debit card issuers, including credit unions, are exempt for the parts of the proposal that prohibit exclusive networks and allow merchants to choose how a transaction is processed. With respect to network exclusivity and routing, the Fed proposes to adopt either: (A) "Alternative A", which would only require a credit union to issue debit cards that could be processed by two unaffiliated networks, such as one PIN network and one unaffiliated network using signature authorization (or two unaffiliated PIN networks, or two unaffiliated signature networks); or (B) "Alternative B," which would require a credit union to issue debit cards that could be processed on at least two unaffiliated PIN networks and also on at least two unaffiliated signature networks.

Small issuers under this proposal will be disadvantaged if the provisions on routing and exclusivity allow merchants to choose how debit card transactions are processed. We would urge the adoption of "Alternative A" which would only require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. To do otherwise could place an unreasonable regulatory burden on our credit union that could negatively impact service to our members.

Florida Commerce appreciates the Federal Reserve's willingness to allow for public input on this rule.

Sincerely,

Cecilia D. Homison  
President/CEO