

From: International Merchant Services, Inc., Neil C Johnson  
Subject: Reg I I - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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Comments:

Having worked with both retailers and payment processing companies over the past 30 years I would like to offer some comments regarding your proposed rules. I currently am a member of several trade organizations that will be significantly affected by the rules you put into place as well as my own company which sells payment processing and we are also an independent deployer and owner of ATMs across America. While I will refrain from comment as to the reasonable and proportional costs incurred by issuers I can assure you that it is impossible to operate an ATM with just the interchange paid by the networks and issuing banks. Since Visa and MasterCard lost their landmark anti-trust ruling several years ago they have begun taking their lost revenues back from the independent ATM deployers and operators by significantly reducing the interchange revenue that is paid to us to operate the ATMs across their network. Because network rules currently prevent us from routing to other networks paying higher interchange or charging more for one network than another, we are held captive to lower rates while they continue to gain power and market share at our expense. Owners of ATMs do not pay interchange but rather receive interchange in what could be determined a sort of reverse interchange. As the owner of the ATM we charge a fee to use that ATM which, in effect, makes us the merchant so we should have the same rights as the Dodd Frank law envisioned allowing us to route transactions to networks that are the most advantageous to us. We are asking that we not only have the same routing rights as other merchants but also that the Federal Reserve require issuing banks to have at least two (2) unaffiliated networks for signature debit and two (2) unaffiliated networks for pinned debit. Current network exclusivity prohibitions and routing provisions must be changed to allow us to again operate profitably. If this is not allowed then Visa which operates credit and debit networks under Visa, Plus and Interlink (point of sale) can continue to operate

with impunity. MasterCard operates similarly with MasterCard, Cirrus and Maestro as do other national networks such as Discover. When I began deploying ATM machines approximately twenty (20) years ago all networks paid a minimum of \$.50 per cash withdrawal and approximately \$.25 for a non-cash withdrawal such as a decline, transfer or balance inquiry. We were able to cover our costs and make a profit by charging a fairly small surcharge to customers who at the time paid on average \$.75 to \$1.00 for a foreign ATM fee of which they paid out about \$.65 to the network which meant that we got about \$.50 - \$.60 of that amount. Note that the banks have significantly increased the foreign ATM fees but at the same time reduced interchange to us becoming much more profitable and requiring that ATM deployers charge a higher and higher surcharge fee to survive. If banks and networks are allowed to continue to change the rules to their benefit, and continue to reduce what is paid to the ATM deployers then we must be allowed to route transactions to be the most profitable possible and/or to be allowed to increase the charges to cardholders of networks paying the least amount which should encourage their cardholders to become aware of the reasons for the higher cost to them when using that card. If the benchmark is \$.50 for a cash withdrawal for most networks and a particular national network only pays \$.17 for a cash withdrawal that cardholder might be charged \$.33 more to use the ATM thus bringing in the same amount of revenue of the other networks. While networks could still decide to pay whatever amount of interchange they chose to, their cardholders would pay more and it wouldn't be long before competition evened out the playing field which is not happening right now. Currently the national networks, Visa and MasterCard specifically are gaining market share by reducing what they pay out to us so that they can increase what they pay to the issuer thus increasing their market share against regional networks such as NYCE, Star and Pulse. We believe that by correcting exclusivity and routing provisions we can again level the playing field in card issuance routing and processing. Thank you,  
Sincerely, Neil C. Johnson President