From: Rene Gonzalez

Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 22, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
Name: Rene Gonzalez
Affiliation:
Category of Affiliation:
Address:

City:
State:
Country:
Zip:
PostalCode:

Comments:
If the intent of the Durbin Amendment is to strengthen customer protections and lower costs for consumers, the rule proposed by the Federal Reserve Board is off-target. Imposing an arbitrary limit on the interchange rate charged to merchants, whether that be a flat 12 cents per transaction or a more complex variable model with a floor of 7 cents and cap of 12 cents, will risk destroying a payment card industry that has not only brought to consumers the convenience of paying without having to carry cash, but innovative programs that reward consumers for usage and prepaid programs that provide access and convenience to all. Let's evaluate each option. A 12 cent cap on interchange, regardless of the size of the transaction, will leave the profitability of some large transactions in the red. Fraudulent transactions are often associated with larger ticket items, which now will come with less interchange revenue to offset. Trying to implement an audit process to determine the right
rate each bank should receive under the safe harbor option will only add complexity for all constituents within the transaction process, from merchants and card associations to processors and banks. Why add yet another complex process to manage to and audit against? The second item in the proposed rule that is concerning is that of requiring all issuers to have each card associated with two, unaffiliated networks for PIN and/or signature. Supporting two PIN networks on one card is much simpler to implement and may serve to drive pricing down for those transaction types, although these transaction types are already low cost relative to the more expensive signature transactions. However, requiring each card to support multiple signature networks would require the complete dismantling of the payment network as functioning today. Each payment network manages card numbers based on BINs, typically the first 6 digits of the card number. That is how today's systems know to route the

authorization of a transaction to the right bank and/or bank processor. Requiring a bank to put two signature networks on one card would mean the generation of a whole new numbering system, a new process for approval of card programs, a complex process for settlement between banks, transaction dispute procedures that would become a nightmare to manage, more complex customer service, and added convolution for the acquiring banks. All this will serve to only add costs to the system as opposed to lower them and ultimately help the end consumer. In my 16 years in the payment space, I've had the opportunity to work on credit, debit and prepaid products. My passion today is delivering financial payment solutions to those that have traditionally been underserved. This began with prepaid debit 10 years ago and continues today with innovative new payment solutions that leapfrog old technology. My concern is that this rushed rule will be implemented without thought to all impacted areas or how much complexity will be added to an already complex system. I urge the Federal Reserve Board to pause this effort and give itself time to truly measure the impacts these changes will have on the market and not jeopardize ongoing innovation in the payment space. Moving too quickly will likely result in less new entrepreneurial entries into the payment space, and higher fees to consumers as banks move to make up revenue through other means. The only winner will be the merchants with lower fees, likely not to be passed on to consumers.