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Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:
February 22, 2011 Chairman Ben Bernanke Board Of Governors of the Federal Reserve System 20th Street and Constitution Avenue, Northwest Washington, DC 20551 Dear Chairman Bernanke: I am writing to you on behalf of SC Telco Federal Credit Union to express our grave concerns about the proposed Regulation II, Debit-Card Interchange Fees and Routing and to respectfully urge you to postpone the implementation of this proposal. We believe that this proposal represents a direct attack on banks, credit unions and the American consumer and their collective efforts to recover from the worst economic conditions since the Great Depression. This legislation requires thorough review and amendment before implementation. I believe, as detailed in my comments that follow, that additional time is needed for the Federal Reserve Board to thoroughly study this matter. It is our opinion that the Federal Reserve Board did not get sufficient cost data by surveying only the covered issuers.
Community
financial institutions, such as my credit union, will typically have higher operating costs than large national banks. Because the lowering of interchange rates will impact all debit card issuers, the Federal Reserve Board also needs to take the costs of credit unions and community banks into consideration when setting rate caps. Consideration should be given for infrastructure costs associated with the issuance of debit cards, variation in costs among issuers. My credit union believes that the following factors should be reviewed and included in defining the interchange rate. The cost of: 1. Overhead - to manage card infrastructure which includes phone calls, IVR systems, call center employee salaries 2. Plastic - to include Shipping/Embossing/Encoding/Security of Encryption/Reissuance 3. Issuance - Activation, PIN encryption, Unique bins and varied debit programs 4. Exception processing - chargeback, disputes and arbitration 5. Fraud - Prevention and losses, Skimming, Phishing, Merchant breaches and compromises 6. Compliance - PCI mandates, card technical specifications, international transaction support 7. Technology - 64 bit keys,

Dynamic Key, Chip (EMV), Triple Des Authentication, support for ISO 8583 specifications 8. Payment Infrastructure - Association, Payment networks, Merchant processors, Core processors, Internet, Card processors 9. Going green - Card life is 2-3 years versus Paper-Checks. Exclusion of any of the line items could be prohibitive to maintaining viability of my credit union's debit card program for my members. Allowing my credit union to recover only authorization, settlement and clearing costs would be like setting retail coffee prices and allowing Starbucks and others to recover only the costs of the coffee beans. Furthermore, in today's volume-based processing environment, the largest issuers who bring the largest numbers of debit cards and transactions generally pay the lowest costs to third-party network and processing
providers. Smaller issuers with a lower number of debit cards and transactions generally pay higher costs to third-party providers. As such, we believe that it is flawed logic to apply an interchange cap equally across all issuers, regardless of size. Smaller issuers will generally continue to pay higher processing costs than large issuers and, with the lack of any enforcement mechanisms on the under $10B exemptions, smaller issuers could potentially be receiving the same rate of regulated interchange as a large issuer. From a net income perspective, this simply does not make sense. As detailed below, under either network exclusivity routing alternative chosen, we believe additional time to implement is needed. We are told by our processor that Alternative A would take issuers at least a year to implement after the final rule is issued. Alternative B, because it is more complex and costly, would take issuers at least three years to implement after the final rule is issued. This additional time would provide for the vast industry adjustments necessary to avoid unintentional consequences to consumers and the payments industry. We are hopeful that the Federal Reserve Board, in issuing final regulations, intends to provide the framework to help ensure that smaller issuers, like us, are competing on a level playing field. The goal of our credit union is to continue to participate in the industry while working to minimize cost increases and reduction of services. We are concerned about the regulation's impact on our credit union and our members. The Durbin Amendment was enacted in haste: no consideration in any congressional committee, no vote in the House and only scant discussion in the Senate. We believe that changes of the magnitude of the Durbin Amendment, such as government mandated price-fixing and changes to the structure of the payment system should not be imposed without serious consideration, analysis and study. Sincerel, Steve Harkins
President/CEO SC Telco Federal Credit Union