Bellwether
COMMUNITY CREDIT UNION

February 18, 2011

Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

Re: Debit Card Interchange Fees

Dear Members of the Board of Governors,

We at Bellwether Community Credit Union (BCCU) have reviewed the Federal Reserve Board's proposed new Regulation II on Debit Card Interchange Fees and Routing. We are a state-chartered credit union with assets significantly under $10 billion headquartered in Manchester, New Hampshire serving residents and people who work in the state (26,000+ Members) with 70+ employees.

After a detailed review, we offer the following as our comments and grave concerns about the proposal.

Detrimental Impact to Consumers, Members, Community, and Credit Union
The intent of the proposal was that consumers would benefit by reduced merchandise costs, however there is absolutely no guarantee that any savings from merchants would be passed on to the consumer, and there is no defined method for monitoring this key item. There isn't any evidence that prices would be reduced for the already recession-weary consumer.

At BCCU, like other financial institutions, we strive to be efficient, appropriately cover costs, and return value to our membership. If we are mandated to run a debit card program in a deficit, other products, services, delivery channels, and member offerings will suffer, and perhaps be eliminated. We currently offer a rewards program for our debit cardholders that in all likelihood would need to be terminated. A decrease in offerings equals the need for fewer staff. A significant and short notice of a reduction in income can cause loss of jobs, elimination of planned member value initiatives, increased or new consumer fees, and fewer contributions to our communities and local charities that rely on our support. The impact of this ruling can have devastating, rippling effects on our members, the communities we serve, and the economy. As institutions offering free checking continue to diminish, consumers are now being forced to pay for products and services they enjoyed free of charge while at the same time they are paying significantly higher oil and gas prices and attempting to recover from the economic recession of the past years. By passing this ruling, consumers will pay even more for services they deserve, want, and need.

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Failure To Establish a Reasonable and Proportional Standard

The Federal Reserve's very narrow definition of what is "reasonable and proportional" has resulted in artificially low caps on debit interchange that do not reflect the true costs of running a secure, reliable and efficient debit network. The 12-cent cap does not include operational and fixed expenses that are incurred for fraud losses, fraud prevention costs, card issuance, network fees, overhead expenses, and data security for debit card transactions. Needless to report, the costs are quite substantial and 12 cents is not adequate to cover them. In fact, our estimated expenses to cover debit operations are more than double that per transaction. We do not want to be forced by this proposal to raise fees to our Members or reduce debit services. As a not-for-profit credit union, our mission is to serve our Members with affordable financial services and operate in their best interests. Responding to this ruling under its current proposal would force us to negatively impact our Members by burdening them with additional fees in order to pay for our debit program, and it would contradict our commitment to Members that we have spent the last 90 years building. Even the authors of the broader bill have said the Federal Reserve overreached. The Fed should consider all costs of operating a debit interchange system to the maximum extent allowable by law, including all fraud prevention costs such as the cost of new technology that reduces potential fraud, while also allowing issuers to gain some reasonable income from these programs so we may continue to extend these services to our Members.

Network, Routing and Exclusivity Provisions

We believe the original intent of the legislation included a desire to minimize impact to small issuers. Nothing in the proposed ruling provides any assurance and/or consequences for the establishment and sustainability of a true two-tier pricing network. And, regardless of a two-tier network, small issuers will be disadvantaged if the provisions on routing and exclusivity are not implemented properly and the retailers achieve full control of the debit transaction. The proposed ruling is flawed on many levels and has the potential for unintended consequences resulting in a negative impact for our membership.

Between the two routing alternatives proposed, we ask the Board of Governors to adopt "Alternative A" which requires issuers to provide debit cards that can be used over two unaffiliated networks.

In conclusion, we urge the Board of Governors to delay the effective date of their rulemaking for at least two years, hold hearings on and direct joint federal agencies to study the debit provisions' impact, and take appropriate and informed action only after the true impacts and consequences are fully analyzed.

Should you have any questions or need further input on this critical proposed ruling, please contact me directly at 1 (866) 996-9828, ext. 8101.

Respectfully,

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President & CEO
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