

February 16, 2011

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

RE: Docket No. R-1404

Dear Ms. Johnson:

As a financial services industry professional for over 40 years, I am writing to express serious concern about the Federal Reserve Board's proposed Debit Card Interchange Fees and Routing regulations. The unintended impact of these proposals on consumers and debit card issuers is troubling to me both as a credit union member and a financial services professional with Delta Community Credit Union.

As an issuer with less than \$10B in assets, we may not be subject to the interchange caps in the proposed Debit Card Interchange Fees and Routing Regulations. However, as a small issuer, we believe the limits on debit card restrictions and the unintended changes within the market place will have a significant impact on our business. Accordingly, in response to your request for comments, please find our organization's concerns to certain relevant sections of the proposed regulation

Reasonable and Proportional Fees.

Comment: The proposed definition of allowable costs is currently limited to "an issuer's role in authorization, clearance and settlement of a transaction that may vary with the number of transactions sent to an issuer within a calendar year" and should realistically also take into account fraud prevention, fraud loss, and other fixed costs including program administration and non-processing fees. These expenses are all fixed costs required to offer and manage a debit card offering which is offset by the interchange income we earn today.

Recommendation: While neither Alternative 1 nor Alternative 2 in your proposal allows us to realistically cover the expense of our debit card program, we recommend the Federal Reserve adopt Alternative 2 which would adopt an industry-wide cap applicable to all issuers with one caveat. We believe the proposed 12 cents cap is too low and urge the Federal Reserve to revisit the caps set forth in both options. We also think the definition of allowable costs used to establish this cap should be revised.

As illustrated in the chart on page two, the definition of allowable costs and the cap of 12 cents per transaction does not cover the minimal cost associated with issuing and providing customer support for a basic, no-frills debit card product. The chart also shows the additional costs of At-Risk Card Benefits and At-Risk Checking Benefits, which our customers and the marketplace have come to expect.



Application of Interchange Income

\$0.01 - \$0.12	\$0.13 - \$0.22	\$0.23 - \$0.43
Proposed Interchange Cap	At-Risk Card Benefits	At-Risk Checking Benefits
Processing fees. Non-processing fees. Back office administration.	\$0 liability policy. Fraud prevention. Debit rewards program.	Checking account dividends. Surcharge-free ATM networks. Free of charge 24/7 call center services. Online banking services.

Fraud-prevention adjustment.

Comment: In 2010, we spent over \$240,000 in systems and cardholder services to prevent unauthorized transactions on our debit cards and incurred net losses of almost \$450,000 due to debit card fraud resulting from data compromises at merchants or their acquirers and/or processors. Excluding these costs limits our ability to cover the risk we assume as a debit card issuer. Consumers could also be impacted by maintaining a narrow viewpoint on how fraud losses and prevention costs should be factored into interchange caps. Today debit cardholders are not held responsible for unauthorized transactions through an industry-wide adopted \$0 Liability policy. Such a policy may become cost prohibitive if the cost of fraud prevention and loss are not taken into consideration, resulting in consumers being responsible for fraudulent charges. Additionally, since fraud losses are a direct hit to an issuer’s bottom line, it’s already in the best interest of each issuer to manage fraud losses at or below system or peer performance levels. This information is provided by payment associations to issuers in an effort to help reduce fraud losses across the payment system to acceptable levels.

Recommendation: We urge the Federal Reserve to define within the final rule a fraud-prevention adjustment to the interchange cap that would not only factor fraud prevention costs but also cost of debit card fraud losses. In addition, we recommend the adoption of the second approach to addressing fraud prevention cost, which focuses on a fraud-prevention adjustment based on “reasonably necessary steps for an issuer to maintain an effective fraud prevention program, but would not prescribe specific technologies that must be employed as part of the program”. We do not believe adopting specific technology standards to qualify for a fraud prevention adjustment would be effective as each issuer’s risk position is different based on geography of cardholder base and size of portfolio. The infrastructure needed for us to maintain low fraud losses may be very different than a larger or smaller issuer. The nature of the fraud landscape continually changes, which means any additional requirements established would have to be frequently updated to stay in front of new fraud trends.

We would recommend the Federal Reserve defer to system and/or peer performance data already provided by the payment associations as measurement of acceptable fraud prevention performance levels for both PIN and signature transactions needed to qualify for a fraud prevention adjustment instead of defining specific systems and/or technology requirements.

Exemptions.

Comment: We are in support of the small issuer (assets less than \$10B) exemption. However, we have serious concerns relative to the enforcement, or lack thereof, by payment associations and merchants.

While the intent of the exemption is to not apply the 12 cents cap on interchange, it is questionable whether or not payment associations will manage to a two-tier interchange system and maintain an interchange structure over the long term for issuers who meet the qualifications of this exemption. We are also concerned over guaranteed acceptance of our cards at point of sale by our customers.

Recommendation: We urge the Federal Reserve to incorporate language that ensures the payment associations are required to maintain an interchange structure for issuers who qualify for the small issuer exemption similar to interchange today, as well as provide a solution to the lack of enforcement at merchants to accept debit cards from issuers who meet the small issuer exemption. Anything less puts at risk the intent of the small issuer exemption.

Prohibition on circumvention or evasion.

Comment: As an issuer who qualifies for the small issuer exemption, we support the position prohibiting non-exempt issuers from receiving compensation, incentives and payments that exceed the total amount of fees paid by the issuer to the network.

Recommendation: Pertaining to contract signing bonuses that you have asked for specific comment, we believe bonuses to maintain or move business from one network to another should not be considered when determining the total amount of compensation provided by a network to an issuer for determination of circumvention or evasion.

Limitations on debit card restrictions.

Comment: We don't support any requirement for issuers to offer any combination of unaffiliated networks on our debit cards as both alternatives provided in the statute will adversely impact us as an issuer. We do feel, however that 'Alternative A' requiring only an unaffiliated signature and PIN network as compared to 'Alternative B' which requires two (2) unaffiliated PIN and two (2) unaffiliated signature networks would provide the least amount of burden on issuers. We believe the proposed October 1, 2011 date for 'Alternative A' is too aggressive because of the number of network routing changes the overall industry would be required to make to meet the requirements of the rule. Additionally our industries need a greater amount of time to better understand the impact of these requirements. Also, some networks require their logo, or 'bug', to appear on the back of the card to participate in their program. This may require a mass re-issuance of current plastic which would further burden issuers with unnecessary expense. As the industry adjusts to the new requirements, network transaction pricing may occur, and it would be unfair to require issuers to review, select and implement additional networks within 2-3 months of the July 1, 2011 effective date of the rules.

Recommendation: We urge the Federal Reserve to consider a date two years out for compliance with 'Alternative A'. We are not supportive of the Federal Reserve including 'Alternative B' in the final rule, as it would have a greater adverse impact on issuers and consumers since it requires two (2) signature and two (2) PIN networks to be offered by the issuer for transaction processing. Consumers would be impacted as the network which processed the transaction would not necessarily be known and differences in chargeback and \$0 liability rules, and other cardholder protection benefits, like fraud alerts or insurance, would be difficult to understand and manage. This option would also require many issuers

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to increase the size of their back office staff to manage multiple network chargeback, dispute, fraud and other exception processing functions. We also urge the Federal Reserve not to apply either 'Alternative A' or 'Alternative B for devices used in lieu of a card (i.e., a key fob or mobile device). These types of devices are enabled only to process transactions using a single authorization method. These types of payment applications are emerging technologies, and we are concerned the application of network limitations to new technology will stifle innovation.

Coverage of ATM transactions and networks.

Comment: While there is a transaction routing expense incurred by the acquirer and/or the issuer of the card, the cost structure does not benefit the merchant. In most cases, the issuer of the card is paying for the cost of the transaction. Plus, ATMs are owned by ATM networks with no merchant affiliation, not by merchants. Therefore, we do not see the relevance of the proposed regulation with ATM transactions and networks.

Recommendation: We urge the Federal Reserve to not apply the Debit Card Interchange Fee and Routing regulation to ATM transactions and networks.

We appreciate the opportunity to provide comments on proposed regulation that we and the rest of our industry fear will have significant impact and unintended negative consequences for consumers and debit card issuers. We hope you will take our comments into consideration before your final rules are issued later this year.

Sincerely,



Rick Foley
President & Chief Executive Officer