SACU

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February 22, 2010

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

RE: Debit Card Interchange Fees and Routing
Docket No. R-1404

Dear Ms. Johnson,

This letter is written on behalf of the San Antonio Federal Credit Union (SACU) in response to the call for comments regarding the regulation of debit fee interchange income, Federal Reserve Board Docket NO. R 1404. SACU is highly concerned on the negative impact the Federal Reserve Board's proposed regulation would have on our credit union, our membership, and our employees.

SACU is a $2.9 billion federally charted credit union with over 95,000 checking accounts, of which 67,000 are debit card users. These debit card users generate an average of 30 million debit card transactions per year. Debit cards are a preferred and growing form of payment by consumers and merchants alike. The consumer enjoys the convenience of card usage, and merchants benefit by an almost immediate form of payment. To offer a card program and the benefits it offers to the consumers and merchants comes at a high cost to the card issuer in the form of operational expenses and fraud losses. Most of the fraud losses are an expense to the card issuer, not the merchant. It is the merchants who are the primary source of fraud losses. Case in point, during the past 12 months, our credit union received 126 compromised card alerts, affecting 9,500 accounts. Ninety-two percent of these card alerts are a result of merchant network breaches, and financial institutions have no control over their negligence in securing their payment network. Yet, the Federal Reserve Board did not consider these components as they proposed these regulatory changes.

The first provision of the proposed regulation calls for an interchange fee cap of 12 cents per transaction, however all factors, including fraud, and operational costs should be considered. Interchange revenue is only realized by the card issuer when consumers use their cards. A decrease in card usage decreases interchange fee revenue, yet the expenses to maintain a card program do not decrease, on the contrary, the costs to maintain a card program continue to increase.

The second provision of the proposed regulation calls for issuers to provide access through unaffiliated networks. Our concerns are that the merchants can refuse cards that do not access the lowest cost networks, and conceivably eliminate the acceptance of our cards at these merchants.

A decrease in interchange fee income and the costs of adding additional payment networks will undoubtedly have a negative economic impact on card issuers. Additionally, the consumer will be impacted, too. We estimate the impact of this reduction in interchange income will result in approximately $4.3 decrease in bottom line revenue to SACU. To recover this loss in revenue, our members will experience a rise in costs for financial services and many free services may be eliminated.

Sincerely,

Charles A. Smith
Sr. Vice President, Lending
SACU