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Delivery via E-mail to regs.comments@federalreserve.gov and submitted via the Federal Reserve eRulemaking Portal at www.regulations.gov

February 22, 2011

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

Subject: Docket No. R–1404 and RIN No. 7100 AD63

Notice of Proposed Rulemaking – Debit Card Interchange Fees and Routing

Dear Ms. Johnson:

We greatly appreciate the opportunity to comment on this proposed rule, particularly given the unintended negative consequences that will result if it is implemented in its present form. We are a credit union with $960 million in total assets serving 88,000 members along Colorado's front range. While Congress intended to exempt institutions with less than $10 billion in assets from the reduction in interchange fees, **the proposed rule does not currently provide sufficient enforcement mechanisms**. As a result, **we believe our debit card revenue will be slashed by 78% and our net income will be reduced by roughly one third.** This will greatly damage our ability to meet growth in our members' credit needs, given earnings are a credit union's only source of capital. To offset this hit to earnings, our members will be required to bear some combination of increased fees and lower quality service (resulting from corresponding cost reductions).

The debit card payment system was designed to efficiently transfer funds for the benefit of consumers and retailers. The current system requires sufficient resources to manage the accuracy of funds transfers while protecting consumers' financial assets. **The Federal Reserve Bank's calculation of those costs grossly underestimates the requisite resources to manage the system and deployment of the current proposed cost structure puts the consumers, retailers and financial institutions in jeopardy.**

The proposed measure transfers capital from US Government-insured and regulated financial institutions to private sector uninsured retailers. **There is no evidence that the consumer will ever benefit from this government-imposed transfer of resources. Rather, all current evidence indicates that the consumer will not benefit, as many banking institutions are imposing or increasing consumer banking fees that are designed to mitigate the devastating impact the current proposal will have on their future capital.** The burden of these increased fees will fall disproportionally upon lower income and under-banked consumers, as their access to products such as "free checking" will be more severely restricted.

The following summarizes our key recommendations:

1. We ask that the rule be strengthened to enforce the $10 billion exemption, and to ensure that current interchange levels are maintained for these smaller institutions (consistent with Congress's objectives).

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2. If this aspect cannot be adequately addressed, we ask that the card issuer survey be repeated and expanded to include institutions below $10 billion. We believe it is inappropriate to apply the results from a survey of large institutions to the operations of smaller institutions.
3. We urge the Federal Reserve to increase the interchange transaction fee to incorporate coverage of fraud, fraud prevention and data security costs, as allowed by the statutes. We're not prescribing a specific approach for making these adjustments, but again ask that they incorporate the results of smaller institutions should the $10 billion exemption not be strengthened sufficiently to meet Congress's objective.
4. The Board requested comment on two alternative standards for determining whether the amount of an interchange transaction fee is reasonable and proportional to the cost incurred by the issuer. We support Alternative #2, which adopts a cap that is applicable to all covered issuers.
5. With respect to the proposed debit-card routing rules, we support "Alternative A," which would require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our members.

Thank you again for providing the opportunity to provide comment, and for your consideration of our views.

Sincerely,

Michael Calcote

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Elevations Credit Union

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