February 22, 2011

Ms. Jennifer J. Johnson,
Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
Washington, D.C. 20551

Re: Board of Governors of the Federal Reserve System -- Proposed Rule on Debit Card Interchange Fees, Docket No. R-1404

Dear Ms. Johnson:

As Executive Administrator of the LMI Economic Mobility Initiative, I am writing to express the Initiative's concern related to the drastic debit card interchange fee limitations contained in the Notice of Proposed Rulemaking as published in the Federal Register on December 28, 2010, setting out a new Regulation II. The Initiative currently is developing a framework to offer a range of banking products designed to facilitate upward economic mobility for low- and moderate-income (LMI) consumers. The proposed fee limitations will severely jeopardize LMI consumer access to the basic financial services essential to the economic success of this country and its citizens.

According to the Federal Deposit Insurance Corporation, more than 60 million LMI consumers in America remain unbanked, under-banked or underserved. For many of these consumers, the only financial transaction in which they participate is paying a fee to cash a check. Lack of access to affordable banking products and services deters the economic advancement for LMI consumers and inhibits the economic growth of the nation's low-income communities.

The Initiative has developed a scalable solution to this problem: a range of affordable deposit and credit products, centered around a consumer savings account accessed via online debit card. In order for this solution to succeed, it is necessary to keep costs to the consumer to a minimum, while still having some acceptable level of return for the participating financial institutions. The Initiative anticipates that achieving these goals will in part result from economies of scale created by large transaction volumes. At the same time, a critical component of both minimizing consumer costs and generating financial institution returns is the interchange fee. The fee will enable consumers to avoid charges for check cashing and will allow institutions to offset some of the costs associated with the new products. Without the fee, or even with the fee at the drastically reduced level in the proposed Regulation II, it may not be possible to incentivize LMI consumers to transition from paper check into bank accounts with direct deposit, thereby inhibiting the ability for consumers who are of low-income to achieve economic mobility and self-sufficiency.

Not only will limiting interchange fees jeopardize the Initiative's planned program, it will also harm those LMI consumers who already have managed to gain access, however tenuous, to traditional banking services. First, institutions faced with the need to replace lost interchange fees will limit benefits currently provided to customers and will increase existing fees or impose new ones. While admittedly for many customers these changes may merely be annoyances, for LMI consumers they make the difference between being able and not being able to maintain an account and achieve economic mobility.

This will be especially true for changes like the loss of free or low-cost checking accounts and free debit card services and products. Without these free or low-cost products and services LMI consumers will either be forced to bear new costs they cannot afford or be driven out of mainstream banking completely.

In connection with preparing these comments, the Initiative has calculated the potential impact of the proposed interchange fee limitations on the LMI community. Because of the limited time provided by the comment period, the Initiative's results are by necessity preliminary. Nevertheless, even at this early stage they are highly disturbing. Based on our initial calculations, in the short run the reduction in fees will impose an annual cost of approximately $2.1 billion on LMI customers who will have to pay increased fees to financial institutions to offset the loss of interchange fee income. Furthermore, the potential longer-term impact is even more severe. The Initiative has estimated that its proposed account structure has the potential to save LMI consumers billions of dollars a year in fees and other charges. If reduced interchange fees render the account structure economically unworkable, these savings would not be available to the very consumers who need them most. This would be nothing less than a tragedy.

Effective access to low-cost financial products and services is vital to the success of LMI individuals and families and will advance the economic mobility of our nation's underserved communities. The Initiative has worked to develop a program for achieving this access, a program that has received favorable comment from financial institutions and their regulators, from retailers and from community and other nonprofit groups. Now, as the Initiative stands poised to implement this program, the radical limitations on debit card interchange fees in the proposed Regulation II may make implementation impossible. Furthermore, these limitations may undo the hard-won access of those LMI consumers who already have entered the mainstream banking system. Accordingly, the Initiative requests that these limitations be revised to be more consistent with fundamental economic fairness to America's LMI consumers.

Sincerely,

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