



Mark N. Starr
President and Chief Executive Officer

February 9, 2011

Ben Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing to express my serious objection to any legislation that would force or allow a reduction in interchange fees paid by retailers. Interchange is part of the cost merchants pay when they choose to accept debit and credit cards. A simple cost of doing business for retailers, interchange income is the revenue we, as a credit union, use to build and maintain our card programs, fraud protection and data security.

When merchants accept credit and debit cards, they avoid many risks associated with cash and checks such as counterfeit, employee theft and non-sufficient funds. Issuers bear the burden of fraud management and credit losses. Interchange only partially mitigates those expenses. Retailers who support the act insist that the proposed interchange caps only affect institutions with greater than 10 billion in assets. This is simply not the case. The Fed survey only considered impact to financial institutions with greater than \$10 billion in assets. Smaller, financial institutions have not been studied at all. Institutions with assets of less than \$10 billion represent 99 percent of financial institutions in the U.S. Therefore, approximately 15,650 of the nearly 15,800 financial institutions in the U.S. were not studied.

At present, the Act does not include provisions that would require the enforcement of an exemption for issuers with assets under \$10 billion. If approved as is, small institutions would be forced to match large issuers interchange caps in order to remain competitive. If community banks and credit unions do not match large issuers interchange rates they run the risk of non-acceptance by retailers. Merchants will also offer discounts to consumers with preferred interchange rates. They will also be able to enforce minimum purchase requirements for those cardholders who carry non-preferred cards. Small, community banks and credit unions lack the economies of scale to make pricing deals with merchants. If forced to compete in the debit market by matching large banks interchange

rate without passing fees onto members, the exception offers small issuers no protection without a two tiered structure. The Fed's rule must contain language mandating a two tiered structure that would guarantee the ability of higher interchange for smaller issuers who are exempt from the interchange caps of the Durbin Amendment in order to ensure the act is carried out as congress intended.

The FED must explicitly exempt institutions with assets under \$10 billion from interchange caps and network routing requirements as required by the Durbin Amendment. There is no consumer benefit to community institutions being pushed out of the market by retailers seeing more profit and Mr. Durbin's amendment acknowledges this. The big banks will become bigger, the smaller banks and credit unions will not be able to offer lower cost alternatives and consumers will have very little choice for their banking solutions. Further, this will cause increased concentration of banking in a few "too big to fail" institutions which is the opposite direction a regulator such as the Federal Reserve should be heading. If the Fed rule does not enforce the intent of the Durbin Amendment there is the distinct possibility of future legal action from community banks and credit unions.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark N. Starr", with a long horizontal flourish extending to the right.

Mark N. Starr
President & CEO
Florida Credit Union

MNS/sb