MutualofOmahaBank

Jeffrey R. Schmid
Chairman and Chief Executive Officer
jeff.schmid@mutualofomahabank.com

3333 Farnam Street
Omaha, NE 68131
T 402.351.4233 F 402.351.2651
mutualofomahabank.com

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Via E-mail at regs.comments@federalreserve.gov

Ms. 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 and RIN No. 7100 AD63
Interim Rule on Debit Card Fraud Prevention Adjustment

Dear Ms. Johnson:

We appreciate the opportunity to provide comment on the Federal Reserve's Interim Rule regarding the Debit Card Fraud Prevention Adjustment. We believe that the Interim Rule correctly requires issuers who wish to receive a fraud prevention adjustment to meet flexible, non-prescriptive fraud prevention standards. We also believe that the Interim Rule properly applies the adjustment to all forms of debit card transactions. However, we strongly believe the 1-cent allowance is insufficient to cover the true costs that issuers like us bear for fraud prevention. The Federal Reserve itself acknowledges that the Interim Rule caps debit interchange fees below an issuer's average total costs per transaction.

It is true that there is a strong need for fraud prevention. However, the 1-cent adjustment provided in the Interim Rule actually acts as a disincentive for issuers to develop or utilize new technologies. Unless issuers can recoup our costs on the whole, we must certainly be hesitant to invest substantial resources in fraud prevention. This is true even if it might produce long-term reductions in fraud losses, as there is no guarantee that the Federal Reserve will later revise or increase the adjustment amount accordingly.

As we noted in our February 22, 2011 comment letter on the Federal Reserve's Proposed Rule for the general regulation of debit card interchange fees, the Rule represents a greater than 75 percent annual reduction in the revenue Mutual of Omaha receives for these transactions and fails to take into account a number of fixed costs incurred for supporting the debit transaction system. With regard to fraud prevention expenses such as fraud detection, transaction blocking and case management processes specifically, Mutual of Omaha Bank is spending nearly three times the allotted 1-cent per transaction on these expenses. As a result, our plans to issue a debit rewards card to increase customer ease of use and savings, has been eliminated. We are also already seeing many other banks forced to eliminate free checking accounts and other free or low-cost banking services in order to offset their substantial losses. By enabling issuers to recover only partial costs for the investments they make in fraud prevention, the blows to the low- and moderate-income consumer will certainly continue.

Mutual of Omaha Bank is a member of the Financial Services Roundtable and American Bankers Association, and we fully support the comments from those groups pertaining to this issue. Specifically, that limiting the fraud prevention adjustment to such an extent will create a disincentive for issuers to invest in new fraud prevention technologies and will result in fewer free and low-cost services. This proposal will serve only to further harm the consumer, contradicting the intent of the *Dodd-Frank Act*, and is simply inconsistent with basic American free enterprise principles.

For the foregoing reasons, Mutual of Omaha Bank strongly urges the Federal Reserve Board to revise its proposal to increase the 1-cent amount to ensure all issuers are properly compensated and that appropriate incentives are in place for issuers to increase investments in fraud prevention in the future. Once again, we appreciate the opportunity to comment on this very important issue. Thank you for your consideration.

Sincerely,

Jeffrey R. Schmid

Jeffrey R. Schmid
Chairman and CEO

JRS:af