



Credit Union National Association

cuna.org

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December 17, 2010

The Honorable Ben S. Bernanke, Chairman  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Dear Chairman Bernanke:

On behalf of the Credit Union National Association, which represents the credit union system comprised of approximately 7,500 state and federal credit unions nationwide, and the 92 million consumers and small businesses they serve, I want to express very serious concerns about provisions in the proposal to regulate debit interchange fees issued for comments yesterday by the Federal Reserve Board.

CUNA will be filing a detailed comment letter but there are several provisions that will affect small debit card issuers, such as credit unions, and I want to waste no time in bringing them to the attention of the Board and key members of Congress.

Before addressing our concerns, however, I do want to fully recognize that the Board has been given an extremely difficult task of having to develop regulations to implement the Interchange Amendment of the Dodd-Frank Act, which contains conflicting directives, especially concerning the statutory exception for small issuers. I have made that statement repeatedly in calls with members of the press on the proposal. In addition, we appreciate that Board staff have been willing to listen to our concerns. We look forward to continued opportunities to express our concerns.

However, the proposal confirms our worst fears about the inadequacies of the purported protection for small issuers in the Interchange Amendment. More specifically, our initial, major concerns relate to three aspects of the proposal:

- The lack of any enforcement mechanism for the exemption for small issuers from the rate setting provisions that apply to large issuers.
- The low level cap – no more than 12 cents per transaction (7 cents under the safe harbor) – that would apply to debit interchange fees for large issuers. We are concerned about this because the cap ultimately may be applied to small issuers in the



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marketplace if the exemption is not fully implemented. Also, the three credit unions that are considered “large issuers” under the Interchange Amendment will be affected directly by the cap.

- The multiple options that merchants could have to direct the routing of transactions, under proposed Alternative II, to implement the prohibition on exclusive arrangements under the Interchange Amendment. In addition to the loss of interchange income, this approach would also mean small issuers would have to bear even greater costs associated with having to join additional networks.

Credit unions do not want to charge their members more fees. However, the result of the loss of interchange fee income for small issuers and the costs of having to belong to more payment networks will have a horrendous impact on credit unions that offer debit cards and their ability to build net worth. Because of statutory requirements, credit unions can only build net worth (capital) from retained earnings. Any significant reduction in interchange income will require higher fees paid by consumers. Thus, consumers will be left paying for the bonanza to merchants – which is not what Congress intended.

We urge the Board to consider these concerns fully and to consider whether language in the Interchange Amendment that gives the Board authority to issue rules to avoid evasion of provisions in the amendment (Electronic Fund Transfer Act Section 920(a)(1)), including the exemption, can be used to protect small issuers as Congress intended.

Thank you for your consideration of our very grave concerns.

Best regards,

A handwritten signature in black ink, appearing to read "Bill Cheney", with a long, sweeping tail extending to the right.

Bill Cheney  
President & CEO

cc-Treasury Secretary Timothy Geithner

The Honorable Tim Johnson

The Honorable Richard Shelby

The Honorable Barney Frank

The Honorable Spencer Bachus

All Federal Reserve Board Governors

The Honorable Debbie Matz, NCUA Board Chairman

Ms. Louise Roseman, Federal Reserve Board Director of Bank Operations