

From: Neighbors Credit Union, Darlene Owens
Subject: Reg I I - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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To: regs.comments@federalreserve.gov Subject: Regulation II - Debit Card Interchange Fees and Routing Date: 01/14/2011 11:45 AM Darlene Owens 6300 South Lindbergh Saint Louis, MO 63123-7804 January 14, 2011 Federal

Reserve Board Dear Federal Reserve Board: I am writing regarding the recent proposed regulations that would regulate debit card interchange fees and routing. I have worked in the credit union industry for over 30 years and anyone with a working knowledge of the debit card business can easily tell this proposal in

no way is "helping the consumer". It is "price fixing" to benefit the larger merchants. Basically, it is a gift to the larger merchants; especially those who own their own processing. Issuers, merchants, networks and processors all sign contracts and the merchants are using the government to intercede on their behalf - that does not make sense to me. To offer a proposal without taking into consideration the fraud losses is ridiculous. The only losses a merchant is responsible for are transactions in which their staff did not follow procedures. Issuers on the other hand take the majority of losses - per Regulation E if a consumer writes their PIN on the card we take the loss, many merchants set a minimum charge back - gasoline stations \$75 - we take the loss, a family member or friend uses the card without authorization, we take the loss. Gift cards are sold daily and sometimes 4 and 5 at a time with counterfeit debit cards because the only requirement the merchant has is obtaining a

signature; not the signature of the name of the card - just a signature. Does the merchant care that it is a counterfeit card? No because they made their sale. Before any "mandates" are given I think the entire picture should be viewed not just a snapshot. The interchange fee does need to take into consideration all the costs the issuer actually incurs not just the processing costs of the transaction. Remember merchants are receiving guarantee funds; the other choice is checks and they bore much more of the risk. The Federal Reserve Board is aware that the two tier rate system may not work. Thus far, VISA is

the only network to state publicly they will support it but, will or can the processors? If not, the institutions under \$10 billion and their consumers will suffer the consequences. Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. We therefore urge the Fed to adopt routing "Alternative A," which would only 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. The results of your actions could easily be disparagement discrimination. The majority of credit unions now offer free checking and debit cards to our members. If your proposal is accepted we may be forced to charge members a monthly fee just to have a checking account and debit card. Of course that should not come as a surprise to any of you since the proposal recommends financial institutions to recoup expenses through account-based fees. Sincerely, Darlene Owens