

From: Tom Loftus  
Subject: Reg I I - Debit card Interchange

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Comments:

February 17, 2011

Federal Reserve Board  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Dear Federal Reserve Board:

Once again, we find ourselves struggling for our survival as a result of government regulations that are supposed to "Help".

Years ago the Federal Reserve began pushing for electronic transactions so it would cut down on the number of paper checks being processed. The reason was to speed up the credits to the payees while cutting down on the processing costs. Financial institutions meet this challenge by pushing debit cards. The acceptance started slowly, by now has become the norm.

This infrastructure was built at little or no cost to the consumer by the financial institutions. Some banks and credit unions may have had debit card fees at first, but those have all gone away. Although merchants bore the cost of this convenience, their pay back came in the fact that their losses resulting from bounced checks were greatly reduced and they didn't have to wait for the checks to clear before they received the credit for them.

Now, in 2011, the government wants to pull the rug out from under the financial institutions that helped build this infrastructure by cutting the fees that can be charged to the merchants for these transactions. Are the merchants taking on additional risks for this reduction of cost to them? No, they will receive the same benefits as before, just less cost to them. They claim this reduction in costs will be passed on to the consumer!!

The costs to run this infrastructure are already established. If the cost to operate the program is transferred back to the financial institutions, who do you think is going to end up paying the cost? Financial institutions will be forced to implement or increase fees to those that use the service. Free checking accounts will likely go away and members (customers) will have fees for debit card usage. Maybe consumers will go back to writing checks, but they are \$15.00 a box! I believe this is a huge step backwards! I know as a consumer, I don't want to go back to carrying a checkbook or cash for my purchases.

I know that in the credit union that I work for, the interchange income we receive just barely covers the costs for offering the service to our members. Small institutions like mine need a level playing field to compete with the big banks and this proposed rule regarding the regulation of debit interchange fee income, as mandated by the Dodd-Frank Act will

tilt the field in the big banks favor due to their size and their economy of scale. Although the proposal addresses this somewhat with the two-tiered system, it is impractical to think that smaller institutions won't still be at a disadvantage.

In closing, the proposed regulation of debit interchange fee income, as mandated by the Dodd-Frank Act will likely cost the consumer as much or more that it does today by switching the burden of the costs from the merchants to the financial institutions. And as usual, small credit unions like ours that have to try to compete with the big banks on every other level will once again have to struggle to keep our members from paying higher fees while making enough income to survive the fraud losses and costs of the debit card program.

Sincerely,

Tom Loftus