

From: Denise Brady  
Subject: Reg I I - Debit card Interchange

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Comments:

February 21, 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:

I am a credit union employee who is involved on the service side of our business. On a regular basis, we meet with members who have fallen victim to debit card fraud. We also are often working with individuals who take advantage of the debit card system and claim fraud on their cards - when in fact, they were the purchasers.

In many instances, we are unable to recover the funds and are forced to take the loss of the fraudulent (or claimed to be) transactions. This loss is very much a part of our costs for providing the widely used and needed debit card service. Furthermore, we spend an inordinate amount of time with these individuals, taking their statements, gathering information, providing them with guidance, and trying to recover the funds. The man hours that are required to manage this side of the fraud process are huge. The cost is extremely high.

While this example has not happened to us - yet - other credit unions have had instances when many of their cardholders cards have been compromised - requiring the credit union to notify each member; provide continued communication during the replacement of the card; provide support during the process of trying to recover the funds; and reissue each of the members a new card. Very costly. Credit unions must maintain a cost effective program to be prepared for this unwelcomed - but probably inevitable situation.

I estimate that we have at least the equivalent one full-time employee added to our staff to enable us to manage debit card fraud. At an approximate salary of \$30,000 per year, the cost of credit card fraud becomes even more expensive.

I guess my point here is this - if we are to bear the majority of the burden for debit card fraud - we must be able to cover the cost of it by earning reasonable interchange income. The proposed regulation makes me think of the following example: A fourth grader puts a lemonade stand. She is only allowed to sell the lemonade for the amount that it costs her to buy the lemons, sugar, water, and cups. She cannot charge anything extra for her time, materials to build and maintain the stand, spillage, lost cups due to wind, or lemonade given to friends who won't pay. It will not take her long to realize that it is not a profitable endeavor.

The costs will have to be covered in some way. Fees will be added to

issue cards - monthly service charges will be added to checking accounts, etc. My fear is that the consumer will pay the price for a regulation that benefits merchants. There is little doubt that merchants will not pass the savings on to consumers. So, while there will be no reduction in costs on the merchant side, consumers will now pay additional fees at their financial institution to cover the costs needed to run the debit card program.

Really? Have we lost sight of the consumer in this proposed regulation?

My two cents.

Sincerely,

Denise Brady