

From: Arizona Federal Credit Union, Randy S Baldwin  
Subject: Reg I I - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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The debit card interchange portion of the Dodd-Frank regulation would create tremendous economic hardship for our business. We have worked hard over the years to achieve a high level of penetration and usage of debit cards among our checking account holders. As a result, we have enjoyed consistent revenue streams from the interchange we've earned via our debit card program. As a not-for-profit credit union, for several years we have returned millions of dollars to our members in the form of low loan rates, high deposit rates, and year-end loan interest refunds or dividends. The interchange regulation would not only prevent us from returning profit to our members in the future but would also cause us to search for alternate sources of revenue, which may include implementing a checking fee and/or debit card fee, raising loan rates, or reducing deposit rates to offset the loss of revenue. Our members would suffer as a result of this regulation. The interchange regulation will harm consumers by forcing financial institutions to look for alternate sources of revenue. Merchants gain the advantage of reducing risk of loss from paper checks, which may be returned for insufficient funds several days after the transaction. This creates high overhead costs in processing the returns, collecting the debt, and writing off losses. We chose to pay the cost of a real-time interface to ensure immediate posting, which benefits the merchant by authorizing or declining transactions at the point of purchase. Merchants do not directly pay for this interface - we do. However, merchants enjoy the benefits, at a very low cost. They also assume none of the risk of fraud - we assume this risk. In some cases, they actually contribute to higher fraud losses through breaches of their systems or failure to follow network rules. The interchange revenue helps us to offset these operational costs and fraud losses. Then there is the question of whether is it appropriate to restrict a financial institution or any other enterprise from the opportunity to make a profit on any endeavor. Debit cards add value to the consumer, the merchant,

and the financial institution. It is not unreasonable to expect to make a profit from this or any other financial service we offer to our members. Would any enterprise offer a product or service knowing that it would be unprofitable? Possibly, but it should be the choice of the entity to determine whether this fits into the business model. Many financial institutions are working to restore capital that was lost over the past two years - particularly institutions in hard-hit states like Arizona. We are working hard to restore capital that has been lost over the past two years, and we appreciate your consideration.