



February 22, 2011

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
30th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Docket No. R-1404 and RIN No. 7100 AD63; Debit Card Interchange Fees and Routing

Dear Ms. Johnson;

We have reviewed the Federal Reserve Board's proposed Regulation II, Debit Card Interchange Fees and Routing. We appreciate the opportunity to comment on this proposed regulation and on behalf of the Board of Directors and Senior Management of Founders Federal Credit Union (Founders), we offer the following comments.

Small Issuer Exemption

We request that the proposed regulation include language that will require all payment card networks subject to this proposed regulation to establish a two-tier interchange fee structure. This structure should be established at no fee to the card issuer. The proposed regulation provides an exemption for issuers with less than \$10 billion in assets, however, smaller issuers would lose the benefit of this exemption if the payment card networks did not establish a two-tier interchange fee structure.

Interstate Rate Regulation for Non-Exempt Institutions

The establishment of a different cap for the processing of transactions, based on issuer size, merchants may be encouraged to steer customers toward using cards issued by large issuers, or cash or checks, instead of using those cards issued by small issuers. It seems clear that if a merchant would pay less in interchange fees for a customer using a large issuer card than for a small issuer card, then that merchant would strive to pay the lower fees.

Network, Exclusivity and Routing Requirements Applicable to all Issuers

In the proposed regulation, there are alternative proposed approaches regarding network exclusivity. We support Alternative A requiring card issuers to participate in an independent signature network and in an independent PIN network. This alternative is better for all participants in the transaction. The requirements established under Alternative B, i.e. to support two PIN networks and two signature networks, would create a hardship on the card issuers since this technology is simply not available today.

Prepaid Cards, Government-Administered Program Cards & ATM Networks

Requiring issuers of prepaid cards and government-administered program cards to provide at least one ATM for access in the same metropolitan statistical area as the last known address of the owner of the prepaid card is not a reasonable requirement. This would be financially draining for all card issuers, particularly smaller issuers. If, however, issuers were required to issue prepaid and government administered cards as debit cards, the consumer would be able to access the funds through both ATMs and points of sale, through either PIN-based transactions or signature-based transactions.

ATM Transaction Routing

The proposed rule also includes the requirement that ATM transactions be treated as electronic debits. We do not see any way in which this will provide any benefit to the consumer. The only impact this will have will be to cause ATM providers to settle with multiple networks and operate under each of those networks' rules and requirements. A reasonable possible outcome of this will be that higher fees will be passed on to the consumer to reimburse the ATM operator for these additional expenses.

In conclusion, we are troubled by the approach of this proposed regulation. In an attempt to assist the consumer, the unintended consequences of this proposal may have a very negative impact on those same consumers you are attempting to protect. Debit cards are a safe and efficient way for consumers to access money in their accounts in a timely and convenient manner. While merchants do have to pay an interchange fee for the acceptance of debit cards, they receive the benefit of immediate payment and are freed from the arduous process of recovering funds lost on returned or fraudulent checks.

We respectfully request that the Federal Reserve Board reconsider this proposed regulation and attempt to craft a document that truly serves to protect the consumer. In the alternative, if you are not willing to withdraw this proposed regulation, we would request that you provide a two-year period for a working group to study this proposed language and assess its impact on the consumer

Should you have any questions about these comments, please do not hesitate to contact me at 803-289-5952.

Sincerely,

Bruce A. Brumfield
President & Chief Executive Officer
Founders Federal Credit Union