

From: Credit Union, Denda Matthews
Subject: Reg I I - Debit card Interchange

Comments:

February 22, 2011

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N. W.
Washington, D.C. 20551

Dear Ms. Johnson:

Thank you for considering the following comments on the proposed rules designed to comply with the Dodd-Frank Act as it applies to the regulation of debit card interchange.

The complexity of implementing an act that was not studied or debated, that has very narrow time lines for implementation and has the potential to negatively impact the continued financial health of many financial institutions across our nation is challenging at best. With that stated, I would like to express my concerns that there will be unintended consequences that will harm Educational Employees Credit Union's (EECU) 187,000 plus members and quite possibly the future of our credit union's business model.

I am concerned as to the following areas of the proposed regulation:

Even though the Act provided for a \$10 billion asset exemption, the proposed rules lack any type of enforcement to ensure compliance to protect the smaller asset financial institutions. Overtime, merchants will discriminate based on interchange rates without requirements written into the rules. Even with a rule the door has been opened for all types of market eroding discrimination by merchants. If the two tiered system fails, EECU management has already started evaluating changes to our business model that will be needed to compensate for the income loss. EECU has never charged our members a monthly fee for their share draft/checking account, nor per item fees for debit card transactions, nor for on-line banking. However, these are the type of changes that may be necessary if market conditions force down interchange. In this economic climate where lending demand is so low, there are very few options available to support a product that does not cover the cost of operations with some margin for residual loss reserves.

The discussion on Reasonable and Proportional fees as compared to the processing of a check needs to take into consideration that merchants are paying their bank fees for processing a check, for non-sufficient funds handling, and other processing costs. The merchants are also paying the face value of a check returned for NSF and fraud/stolen/counterfeit. In many cases, when using a debit card, the merchants are protected from loss. Therefore, the merchants gain a much higher value from debit card processing than check processing. I recognize that the law was very narrow in what can be considered, however, the law did provide for consideration of fraud prevention in establishing the interchange rate.

So to be equitable, it would seem that some allowances should be made for the internal infrastructure required to process the transaction securely and the controls needed to identify fraud to manage losses incurred by financial institutions. If there is no offsetting compensation for financial institutions to continue to develop new security measures, our members will likely bear the burden of a less secure environment going forward.

I am support of a single interchange cap of one set amount, as I do not believe a workable system could be designed to support multiple levels based on financial intuitions study of their operational costs. However, I believe that 12 cents is ridiculously low.

I also support the one signature and one PIN network approach to meet the network requirement of the law. I see no viable way to route or structure two networks for each signature and PIN transaction.

I do not believe that the interchange rules developed by the Federal Reserve is refined enough to protect small credit unions and banks from operating losses. Due to the potential inequity that this law and rules will create in the future, credit unions and community banks will struggle to compete, our checking/debit cards may no longer be as viable. Our members will pay a much higher cost for their share draft/checking relationship than they do today.

Again, thank you for taking my comments into consideration in finalizing the regulations required to comply with the Dodd-Frank Act.

Sincerely,

Denda Matthews
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