

Jeffrey R. Schmid
President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, MO 64198

Dear Jeff -

I hope this note finds you well. I had no idea that you were now the President of the Federal Reserve Bank. It has been a while since the Mutual banking days, but I hope this letter finds you and your people well.

The reason for this note was that an issue came to my attention, and I thought that I'd send a letter. Please feel free to share my thoughts and views with the broader Federal Reserve governance contingent. We want our processing costs to go down - and some processors are using regulation to keep them artificially high, despite their own costs going down.

I hope there is understanding by the Federal Reserve that a true "reasonable and proportional" rate as required by the statute is important and should be considerably lower than the overall rate of 17.7 cents per transaction as proposed in the rulemaking, down from the current capped rate of 24 cents, and that every other year adjustments are critical once a fair formula is set.

Since the current debit regulated rate went into effect in 2011, banks' costs to process payments have gone down dramatically, while the regulated capped rate charged to merchants for the same debit payments have never been adjusted until this proposed rule. This has left both my company, Peeq Industries, and my wife's optometry clinic, Gretna Vision Source, paying significant processing fees.

As the law makes clear, if debit rates charged to merchants are collectively set - and thus outside of normal antitrust protections - they must be "reasonable and proportional" in relation to the costs incurred by the card issuers and must be adjusted as the costs to banks fall.

The three components that comprise the rate - base component, *ad valorem* loss fee component, fraud prevention adjustment - and the methodologies to ensure they accurately reflect the cost environment before an every other year update process is set, and oversight and auditing of issuer reported data by the Federal Reserve must be implemented to ensure that issuer costs are not misrepresented or inflated.

I hope that you will share with the Federal Reserve Board of Governors that having a reasonably priced access device to our payment system is important and that your business community sees this proposal as a step in the right direction, recognizing however, that the

Federal Reserve's own data shows that banks' cost for processing a debit transaction is 3.9 cents, considerably lower than the proposed base component rate of 14.4 cents.

The proposed regulated rate includes an additional 1.3-cent fraud prevention fee and .04 percent fee on each transaction to cover banks' fraud losses, despite Federal Reserve data indicating that the fraud burden has continued to shift away from banks and on to merchants over the past decade, with merchants now paying for the majority of fraud.

Thank you again for your attention to this rulemaking that is critically important to communities across the country. As a retailer and e-commerce retailer, lowering our transaction costs is critically important to our long term profitability, so please push those costs down. Don't allow the rates to creep to the maximum without pushing that maximum consistently lower when costs of administration and other actuals are lowering consistently.

Thanks,
Tom Chapman
Peeq Pro (formerly with the Omaha Chamber - when we knew each other)

A handwritten signature in cursive script, appearing to read "Tom Chapman", with a long horizontal flourish extending to the right.