



Issue: Federal Reserve Interchange Proposed Rule – Docket No. R-1404

Background: The Federal Reserve Board (Fed) has issued a proposed rule regarding the regulation of debit interchange fee income, as mandated by the Dodd-Frank Act. The Fed is proposing two possible alternatives with respect to interchange fee rate setting that would apply to credit unions with \$10 billion or more in assets but could essentially apply to all credit unions issuing debit cards if the establishment and maintenance by the payment card networks of a two-tiered interchange fee structure cannot be assured: (1) “Alternative 1,” under which an issuer could only recover the greater of 7 cents per transaction (the “safe harbor”) or its actual costs of the electronic authorization and settlement of the transaction up to a maximum 12 cents per transaction; or (2) “Alternative 2,” which would allow interchange fees that vary with the value of the transaction up to a 12 cents per transaction cap.

Credit Union Member Concerns: While the Fed has made some efforts to address a few credit union issues, the new proposal raises many serious concerns. The proposal does reference an exemption for small issuers with assets under \$10 billion from the interchange fee rate setting but does not include provisions to enforce the exemption. As a result of the lack of enforcement for the exemption, small issuers may be subject to the fees that will be required for large issuers under the proposal. Also, credit unions with \$10 billion or more in assets will be subject to the rate setting aspects of the proposal (there are three credit unions in this category).

The proposal also does not exempt small institutions from other aspects of the rule regarding network exclusivity and routing. No debit card issuers, including credit unions, are exempt for the parts of the proposal that prohibit exclusive networks and allow merchants to choose how a transaction is processed. With respect to network exclusivity, the Fed proposes to adopt either: (A) “Alternative A,” which would require a credit union to issue debit cards that could be processed by two unaffiliated networks, such as one PIN network and one unaffiliated network using signature authorization (or two unaffiliated PIN networks, or two unaffiliated signature networks); or (B) “Alternative B,” which would require a credit union to issue debit cards that could be processed on at least two unaffiliated PIN networks and also on at least two unaffiliated signature networks. Of these alternatives, Alternative A would be preferable

ACTION Needed: Please **contact the Federal Reserve** with your concerns today. A suggested letter is available for your use at the Credit Union Grassroots Action Center, <http://capwiz.com/cuna/home/>. We urge you to personalize the suggested talking points with facts about your own credit union’s debit card program and costs, and send it to the Fed via email or print and fax a letter.

Make sure your voice is counted! If you do not utilize CapWiz, please be sure to send your league representative a copy of your letter.

Thank you for your participation in Operation Comment.



TALKING POINTS (Fed Docket No. 1404):

- My credit union is very concerned with the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. The Fed should implement reasonable interchange regulations that will allow small issuers to continue to be protected from lower interchange fees.
- We are concerned that the proposal does not include provisions to enforce the small issuer exemption. We urge the Fed to use its authority to reinforce the small issuer exemption and ensure that it works as Congress intended.
- The proposed debit interchange rates also concern us, especially if the establishment and maintenance of a two-tiered structure cannot be assured. The Fed should consider all costs of operating a debit interchange system to the maximum extent allowable by law, including all fraud prevention costs such as the cost of new technology that reduces potential fraud.
- Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. We therefore urge the Fed to adopt routing "Alternative A," which would require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our members.