



October 27, 2011

Chairman Booher and Members of the Senate Banking and Financial Institutions Committee,

I thank you for the opportunity to appear before you today on behalf of Co-op Services Credit Union and discuss the current operating environment resulting from the change in debit card interchange fees. Co-op Services has been serving members for over 56 years and is a relatively small financial institution. We currently have \$400 million in assets and we serve just over 50,000 members.

First let me express my disappointment and frustration with the inclusion of Section 1075 in the Dodd-Frank Wall Street Reform and Consumer Protection Act. Its inclusion was not directed at curbing Wall Street abuses. It was simply a government mandated transfer of market based operating fees from institutions that 1) funded the renovation of the payment systems; 2) provides consumers with popular and convenient methods of buying goods and services; 3) guarantees payments to merchants and 4) assumes all costs of fraud and computer breeches even when virtually all of those breeches occur at merchants' computer systems.

As you know, Credit Unions are non-profit financial institutions serving the financial needs of its members. We have a volunteer Board of Directors who derive no financial reward or benefit from the decisions that are made. Because of that structure, the process in which decisions are made are focused solely on helping consumers improve their lives by providing affordable financial services in the form of higher deposit rates, lower loan rates, and lower fees than other financial entities.

What we have observed since the passage of Dodd-Frank is exactly what was predicted by Credit Unions and the Michigan Credit Union League; consumers are being harmed through a variety of increased fees on checking accounts and debit cards. The fee increases are attempts to recoup lost income due to the revenue transfer to merchants made possible by Section 1075 of Dodd-Frank.

In response to these actions, Co-op Services is reaching out to those consumers and offering them a lower cost alternative. For example, we recently implemented a program called "Shred My Card". The program encourages consumers to come into one of our offices and physically shred their high cost debit cards and open a free checking account that has no monthly, annual or debit card fees. In return, Co-op Services will give the new account holder \$105 to use any way they want. We are proud to offer this option to consumers.

Programs like this are not unusual for Credit Unions. We have consistently designed and developed programs to help consumers for throughout our history. If we look across Michigan and the nation, I am certain that there are other programs similar to Shred My Card all focused

on helping consumers keep more of their money, especially in these difficult economic times. The concern for consumers is rooted in our non-profit structure and all volunteer board of directors that I mentioned a few minutes ago. It is that structure that is the heart and soul of the credit union industry. Because of this, it is my belief that Credit Unions have been and remain to be one of the best low cost alternatives for consumers.

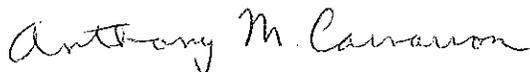
Even though we remain optimistic about our future and our ability to continue to offer free checking and debit card services, we are very concerned that the \$10 billion asset exemption from the interchange rule will be subverted somewhere in the payment systems structure. Stated another way, if there is way for merchants to get around the exemption, they will because it is in their interest to do so. This will make it difficult for small card issuers like Credit Unions to offer these programs due to the high operating costs and associated fraud that is inevitable in these types of programs. The rule went into effect on October 1<sup>st</sup> of this month and we will be watching over the next several months to determine if the exemption is working.

The operating environment that we are in today is much different than just a few years ago. Significantly accelerated legislative and regulatory burdens are crippling innovation and adding cost layers that directly take money out of the pockets of our members. I do agree that reforms were necessary to address unsavory people and practices. However, Credit Unions did not cause the problems that prompted the reforms but our members bear the costs of complying with them.

Even with these challenges, I can assure you that together with the Michigan Credit Union League and Affiliates, we and other Credit Unions will continue to work to offer innovative products and low-cost financial services to our members as well as those consumers who have not yet realized the benefits of becoming a member of a credit union.

I thank you for your time and the opportunity to share my credit union's perspective on past and present events.

Sincerely,



Anthony M. Carnarvon  
President/CEO  
Co-op Services Credit Union