

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Description:

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From: Mario de Armas

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Comments:

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Proposal: Debit Card Interchange Fees and Routing [R-1748]

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First name: Mario

Middle initial: E

Last name: de Armas

Affiliation (if any):

Affiliation Type: ()

Address line 1:

Address line 2:

City: Rogers

State: Arkansas

Zip: 72756

Country: UNITED STATES

Postal (if outside the U.S.):

Your comment: August 10, 2021 Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue NW Washington, DC 20551 Re: Docket No. R-1748, RIN 7100-AG15 Dear Ms. Misback: Thank you for the opportunity to comment on the Board's proposed clarifications on debit card routing and interchange fees. I strongly support the Federal Reserve Board of Governors' proposal to ensure merchants have options when choosing how to route each and every debit transaction. Furthermore, I urge the Board to immediately reduce the regulated rate for debit card transactions as required by law so that the rate is reasonable and proportional to the actual cost of processing the transaction. As the Board is reviewing these comments, and contemplating its next steps, it is important that the Board understand why their actions are so important. Merchants in the United States are burdened with some of the highest acceptance fees in the world. Australia, Europe, China, India, Canada and Mexico all have lower acceptance fees than the United States where merchants pay over \$100 billion every year to accept electronic payments. At an individual merchant level, several small business owners pay more in card acceptance fees than they earn in income. During the current pandemic, customers have shifted even more of their purchases to cards increasing the burden on these merchants. In this environment, the Board's actions are a rare source of relief for merchants. One way that the Board can provide relief to merchants is by guaranteeing and enforcing transaction routing options for merchants. As the Board called out in their proposed clarifications, several issuers are not enabling the second routing option for card not present transactions. This decision is in direct conflict with Regulation II which requires at least two unaffiliated routing for each debit card transaction. This lack of routing options has been especially burdensome over the last 18 months as merchants have seen commerce shift online and their acceptance costs increasing as well. It is critical that the Board address this choice by the issuers and ensure that merchants have routing options for each debit card transaction. Another important way that the Board can provide relief to merchants is by acting swiftly to reduce the regulated debit rate. Federal law clearly states that the regulated rate for debit card transactions must be both reasonable and proportional to issuer costs. The current rate of 21 Cents, plus 5 basis points plus 1 Cent for fraud

adjustment has not been lowered since the law went into effect even though issuers themselves report that their costs have fallen by about 50% over that time. Moreover, fraud losses have shifted significantly away from issuers and onto merchants, removing any reason for the 1 Cent fraud adjustment allowance that is still being collected. Taking action to bring the rate in alignment with statutory compliance prior to the upcoming holiday season would offer significant assistance to merchants who are struggling. Again, I thank the Board for the opportunity to share my thoughts, but more importantly in taking actions to protect merchants' routing rights and providing some much-needed relief. Sincerely, Mario E.M. de Armas