Proposal:	1818(AG67) Debit Card Interchange Fees and Routing
Description:	

Comment ID:	157187
From:	Laura Skilton Verhoff
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Comments:

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

I'm writing to ask that the Federal Reserve withdraw its recent proposal to tighten the price caps on interchange that banks can receive as compensation for processing debit transactions. To ensure that I am on the record, please post this comment individually in the public docket, in full and with my name and affiliation, as promised in the Federal Register Notice. The unavoidable truth about this proposal is that it will make checking accounts more expensive for millions of Americans. Debit card pricing thresholds don't work and the Federal Reserve's price cap proposal will harm banks of all sizes. As the Federal Reserve's data show, Regulation II has reduced interchange compensation for all debit card issuers, and the most recent Fed debit card report shows the damage to "exempt" smaller issuers has increased in recent years. Yet this data, on which the proposal's calculations rest, fails to capture the economic impacts of the card-not-present debit routing rule that went into effect in July. Further, the request for comment specifically excludes any invitation on the "allowable [bank] costs" that should factor into the cap, which I believe to be too-narrowly defined and outdated. Finally, the proposal's creation of an automatic adjustment to the price cap every two years, without the public being given the opportunity to comment, will cause economic damage from the misunderstandings inherent in the proposal's formula and flawed data to grow over time. Study after study has shown that Regulation II has been a wealth transfer from consumers to large merchants, primarily by increasing fees for checking accounts. I must question why, clearly knowing the damage this rule has done to consumers and the competitiveness of smaller financial institutions, a banking regulator would undertake a discretionary rulemaking that will magnify these foreseeable consequences. Unfortunately, and inconsistent with the Administration's stated positions on fees and competition, the predictable result of the Federal Reserve's proposed rule will be higher fees paid by consumers and more pressure towards industry consolidation.

Recently, merchants have been given preference in payments policies by regulators who are growing their own payments operations while community banks are being forced to cut back because of Regulation II and other regulations. There has been a lack of focus on updating data collections regarding debit issuer costs, leading to outdated data sets that are not suitable for rulemaking. Rising and new incremental costs at all issuers, some driven by regulatory changes, are once again being ignored in this rulemaking. The new routing rule, despite imposing high costs and enabling fraud cost manipulation by payments facilitators, was enacted while waving away financial industry concerns and giving full credit to the claims made by merchants and core processors. These incorrect assumptions permeate the data that the Federal Reserve collects on debit card processing and which form the foundation of the current proposal.

I urge the Federal Reserve to recognize that it does not possess accurate data about the real-world experience of debit card issuers who are operating under its new card not present rule, nor has it realistically estimated the costs to consumers and competition. For the reasons shared in my letter, the Federal Reserve should withdraw its one-sided proposal to reopen Regulation II that would further lower the interchange rates and instead undertake research that is informed by industry expertise.

Sincerely,

Laura Skilton Verhoff