

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

Description:

Comment ID: 158583

From: Robert Sutton

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Comments:

NONCONFIDENTIAL // EXTERNAL

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

I ask you to withdraw the proposed rule that would tighten the price caps on debit interchange under Regulation II. This proposal, if implemented, will result in an immediate 30% cut in debit interchange revenue for banks, and will harm consumers by increasing the cost of everyday banking services currently supported by interchange revenue. Banks invest heavily in payments system technology to ensure that our customers, both individuals and businesses, can transact safely and securely across a wide range of platforms. This proposal not only disincentivizes that investment by misappropriating the income derived from it, but also fails to accurately account for the real-world cost banks incur to facilitate transactions. In fact, the Fed's own data clearly demonstrates that hundreds of smaller issuers will be unable to cover their debit card transaction costs under the proposed formula. This will likely further restrict debit accessibility for consumers and could even feed the current trend of consolidation among community banks as another key source of revenue is regulated away.

Beyond the immediate impact on debit card programs, this proposal will likely also impact banks' ability to offer basic banking services, like checking accounts, at no or low-cost to consumers. Basic deposit accounts are operationally expensive to service and maintain, and banks rely heavily on interchange revenue to offset the cost of those accounts, especially where balances are low and other banking activity is limited. I am a banker. In our case, 63% of our consumer checking accounts are not profitable. They generate a monthly loss of nearly \$256,000 or \$3 million per year. This loss is offset by our involvement in the debit card interchange market. Any reduction to the cap exacerbates our losses and will require a philosophical shift to monthly maintenance fees and potentially other fees imposed on consumers who have enjoyed being a part of the banking system under the current market structure. They look to build a relationship based on that initial checking account. Your manipulation of the market for political reasons will force consumers to consider less stable financial alternatives. That will become a fact pattern of your decision.

As part of your analysis, the Fed should look carefully at the relationship between debit interchange and other banking products and services that are vitally important to financial inclusion efforts. Merely staking a claim based on "inflation" caused by the actions of others isn't our burden to bear. The Durbin amendment, enacted in 2011, was poorly conceived policy that effectively eliminated debit card rewards, killed debit programs at many community banks, and reduced access to free and low-cost checking accounts for consumers. This new proposal to further cap interchange will only exacerbate the problems caused by the original Durbin amendment. The Federal Reserve is not statutorily required to pursue any change to existing regulations under the Durbin amendment and I strongly discourage you from needlessly doubling down on this demonstrably damaging policy. I urge you to withdraw this proposal until, at a minimum, the Federal Reserve collects and analyzes more accurate data about the impact of this proposal on consumers and banks of all sizes.

Sincerely,

Robert Sutton