

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

Description:

Comment ID: 158997

From: Astra Bank, Kyle Campbell

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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 42% cut in debit interchange net income for Astra Bank. As Astra Bank utilizes net income from our debit card program to offset costs of products and services offered to our consumer customers, this proposed change will harm these consumer customers by forcing Astra Bank to increase the cost of everyday banking services.

Astra Bank heavily invests 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 Astra Bank incurs to facilitate transactions. Of note, 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 inability to cover costs will further restrict debit accessibility for consumers and could contribute to the current trend of consolidation among community banks as another key source of revenue is regulated away.

Beyond the immediate impact on Astra Bank's debit card program, this proposal will also impact Astra Bank's 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 Astra Bank utilizes its interchange revenue to offset the cost of those accounts, especially where balances are low and other banking activities are limited. As part of its 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.

The Durbin amendment, enacted in 2011, was a poorly conceived policy that effectively eliminated debit card rewards. In fact, Astra Bank was in the process of implementing a debit card rewards program when the Durbin amendment was implemented. This change made what looked like a positive financial program for Astra Bank and its customers an economically unfeasible offering for Astra Bank. The Durbin amendment forced Astra Bank to kill this product offering even before its customers could benefit from it. The Durbin amendment has also 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, which is acutely felt in rural parts of America. 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,
Kyle Campbell
President & CEO, Astra Bank