

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

Description:

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Comment ID: 158976

From: POLAM Federal Credit Union, Jennifer Audette

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

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Comments:

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April 26, 2024

Mary Colleen Daly

President and Chief Executive Officer

Federal Reserve Bank of San Francisco

101 Market St

San Francisco, CA 94105

Dear President Daly:

My name is Jennifer Audette, and I am the CEO of POLAM FCU. I am writing on behalf of both POLAM FCU, POLAM Board of Directors, and myself to express our deep concern regarding the proposed changes to the debit card interchange fees by the Board of Governors of the Federal Reserve System. I believe that these changes could have significant repercussions for credit unions, particularly impacting the financial well-being of our members. As a leader in the credit union industry, I respectfully request the Federal Reserve Bank of San Francisco to oppose the Board's proposal.

Below are our specific comments and concerns for your consideration.

POLAM FCU is a \$75 million asset credit union, headquartered in Los Angeles. We serve approximately 2050 members in Los Angeles. While Regulation II initially exempted financial institutions with less than \$10 billion in assets, the challenges imposed by Regulation II and the Durbin Amendment have adversely affected credit unions, particularly smaller financial institutions like ours. The decrease in the base component from 21 cents to 14.4 cents and the ad valorem component from 5 basis points to 4 basis points would substantially reduce our non-interest income. These funds are crucial for operating our debit card program securely, covering areas such as card fraud technology, dispute resolution, risk mitigation, core and online banking debit card technology, plastic and digital issuance, and cybersecurity. Moreover, the proposal to automatically update the interchange fee cap every two years without the ability to comment on adjustments is concerning and potentially devastating to an institution of our size. This approach lacks transparency and does not ensure the accuracy of the data used by the Board for adjustments. The proposed changes would not only make it expensive for our credit union to operate the debit card program but also negatively affect consumers, particularly those in underserved communities. Credit unions, being nonprofit financial cooperatives, have traditionally worked to minimize fees, particularly for consumers of modest means. Here at POLAM, we take great pride in our minimal or non-existent fees. Lowering interchange fees may result in reduced access to financial services and higher costs for basic services, impacting the most financially vulnerable consumers. While the proposed rule marginally increases the amount credit unions can charge for fraud prevention from 1 cent to 1.3 cents for regulated transactions, these measures may not be sufficient to cover larger-scale fraud mitigation and prevention strategies. Our credit union has witnessed significant increases in fraud rates, and the reduction in revenue from interchange fees would impede our ability to invest in innovative fraud prevention technologies.

I appreciate your consideration of our views on this critical matter. The proposed modifications have the potential to undermine the vital role credit unions play in providing affordable and accessible financial

solutions to our members. I urge you to consider a fair and balanced solution that addresses the unique challenges faced by credit unions in today's financial landscape.

Sincerely,

Jennifer Audette  
President/CEO  
POLAM Federal Credit Union