

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

Description:

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Comments:

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The Fed proposed rule to lower the maximum interchange fee would dramatically reduce debit interchange rates for covered issuers under Reg II. The proposal makes changes to update all three components of Regulation II’s interchange fee cap and threatens to undo the important work that banks, credit unions, and community groups have undertaken to expand access to safe and affordable financial services. The proposal is based on flawed methodology that disregards the cost experience for most issuers, especially smaller credit unions.

The Federal Reserve Board of Governors (Board) should withdraw the proposed rule for the following reasons:

1. This proposal lines the pockets of big box retailers and merchants while harming credit unions and their member-owners.

* Research and history have shown that following the introduction of the current fee cap, the availability of free and low-cost accounts for consumers declined while merchants saved money.? Further reducing the fee cap and by extension debit interchange revenue will only exacerbate these issues.

2. This directly impacts consumers.

* The Electronic Fund Transfer Act (EFTA) requires the Federal Reserve to consider the impact of its regulations on consumers, and research shows that consumers were harmed when the debit interchange fee cap was introduced in 2011 as costs were passed on by issuers. Similar harm is likely to occur if the Federal Reserve reduces the fee cap as proposed.?

3. This affects credit unions of all asset sizes.

* The Board has not adequately considered the impact of its proposal on exempt issuers & credit unions that have assets of less than \$10 billion. The Federal Reserve's data along with research examining the initial effects of the 2011 fee cap show that even smaller, exempt issuers were harmed when debit interchange rates were reduced for larger issuers.

4. The Federal Reserve's transaction-weighted methodology is flawed. Credit unions that lack scale would be unfairly penalized, as would many other issuers denied full recovery of their costs.

5. Regulatory pressure on sources of fee income and the high cost of growing debit fraud will put pressure on credit unions to consolidate or eliminate critical programs that low- For member credit union/League use Provided April 30, 2024 and moderate-income populations rely on to end a cycle of debt and reach their financial goals.

Credit unions, as non-profit financial cooperatives founded on communal ties and relationship banking, reinvest in the communities they serve. The revenue generated from interchange fees often supports community[1]oriented projects, grants and programs. More than 50% of covered credit unions indicate fewer community grants and scholarships are likely if the interchange fee is reduced. o Interchange

fees support affordable access to credit. Reducing fees hinders the ability to serve Main Street small businesses and low-income communities. Small business owners and entrepreneurs rely on credit unions to secure credit cards and capital to launch and grow their businesses. Additionally, when a small business chooses to accept credit cards, it opens opportunities: Consumers spend twice as much when using a credit card compared to cash purchases. Combined with the safety and security provided by the current credit card payments system, accepting credit cards pays off for small businesses.

Credit unions are less able to absorb reductions in interchange revenue due to their unique, not-for-profit structure. o Credit unions with limited capacity to operate debit programs as loss leaders may face pressure to merge, especially in an environment where there is a regulatory agenda to limit fee income. A proposed reduction in the debit interchange fee cap could disproportionately affect low-income and minority households by reducing the availability of free and low-cost accounts and services. After the Durbin Amendment capped interchange fees, consumer checking account fees grew to cover lost revenue. Low-income households faced challenges maintaining the required minimum balances. Cash being the preferred choice among low-income households creates problems at the time of electronic payments as most current payment methods require linkage to a financial institutions account, debit card, or credit card.

Further reduction in interchange revenue could also threaten credit unions ability to return savings and benefits to their members.

- o America's Credit Unions data shows more than 3,500 credit unions offer free checking accounts.
- o The cost of preventing and mitigating fraud is growing for credit unions. However, the proposal adopts a limited fraud prevention adjustment which would deny full cost recovery for actual fraud losses for half of covered issuers.

The credit union industry is consolidating due to increased regulatory burdens and compliance costs. The Board's proposal is likely to accelerate this process given that the only way for debit issuers to reduce transaction costs is to achieve scale. When the current fee cap was adopted in 2011, only two out of then 7,386 credit unions were subject to the debit interchange cap. The number of credit unions has decreased by 37.6 percent, and 21 credit unions are now subject to the cap. The potential closure or scaling down of low-income credit unions would exacerbate financial exclusion for low-income communities, leaving them with fewer options for accessing basic financial services.

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