

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

Description:

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From: Matt Brosovich

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Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

Ms. Ann. E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, D.C. 20551

Today I write regarding the notice of proposed rulemaking (NPRM) on Debit Card Interchange Fees and Routing (Docket No. R-1818, RIN 7100-AG67). Merchants and businesses serving communities around the country and customers appreciate the opportunity to provide input on the proposed revision to the debit regulated rate and creation of an every other year adjustment cycle.

As Federal Reserve data has shown, since the current rate was implemented a dozen years ago banks' costs for processing debit card transactions have declined. Despite the decline in issuer costs, main street merchants and businesses have continued to pay a debit regulated rate that is not "reasonable and proportional" according to the law.

Merchants and businesses accepting debit cards for transactions respectfully request that the three components that comprise the rate - base component, ad valorem loss fee component, fraud prevention adjustment - and the methodologies be modified before every other year rate adjustments are set. Additionally, a process for careful oversight and auditing of issuer reported data by the Federal Reserve must be implemented to ensure that issuer costs are not misrepresented or inflated. As you further evaluate the NPRM, merchants recommend the following modifications.

There is not doubt that the costs have come down for these banks to process these transactions. The formula for calculating the base interchange fee component must have a fixed multiplier of no higher than 2.0.

The proposed four basis point ad valorem fee is not sufficiently "reasonable and proportional" given the reduced number of covered issuer fraud losses, and the component should be awarded on an issuer-by-issuer basis.

The fraud prevention adjustment must be meaningfully evaluated on an issuer-by-issuer basis, and the eligibility for both the fraud prevention adjustment and fraud loss component should be rewarded to only those covered issuers that take effective steps to reduce debit fraud rather being systematically awarded to all issuers. Otherwise those who recognize the fraud risks are paying for those who choose to turn a blind eye.

The proposal for every other year rate adjustments should include the above methodology changes. The Federal Reserve Board should also implement oversight and auditing of reported data to ensure

that issuer costs are not misrepresented or inflated.

A debit rate that is "reasonable and proportional" needs to be available to every business accepting debit payments.

My Sincere Regards,

Matt Brosovich
PO Box 20318
Billings, MT 59104
mbrosovich@bresnan.net
Basin Restaurant Group