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

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From:	Arizona Financial Credit Union, Diane Hank
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Comments:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
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Your comment:
Dear Secretary Misback,

Thank you for the opportunity to comment on the above-captioned Proposed Rule entitled "Debit Card Interchange Fees and Routing" (Proposed Rule). Arizona Financial Credit Union (AFCU) is a state-chartered, federally-insured credit union with approximately $3.3 billion in assets that serves approximately 165,000 members. As all credit unions, we are a group of members serving members. We have existed since 1936 during the Great Depression, when the Federal Credit Union Act was first approved to enable people to help one another by pooling their funds and offering low-cost loans to each other. These same principles guide our credit union today. The members of AFCU, along with other credit unions serving approximately 153 million people, strongly oppose the Proposed Rule insofar as it results in a lowered debit interchange cap. This Proposed Rule could not be more harmful to credit unions and may result in credit unions closing down.

The Durbin Amendment became effective in 2010 and delegated power to the Federal Reserve (Fed) to regulate debit card interchange fees. On June 29, 2011, The Fed issued a final rule that capped interchange fees that issuers can receive from debit card transactions. It was hailed as a victory for merchants and consumers alike. However, since that time we have learned a great deal and have reached two main conclusions: (1)) consumers -- at least in the credit union space -- were in fact hurt, not helped, by the interchange fee caps and (2) merchants did not pass on their cost savings to consumers.
The Federal Reserve's own research shows that only about 1% of merchants passed savings on to consumers after the initial adoption of Reg II and more than 20% increased their prices.
The Proposed Rule indicates that "data collected by the Board every other year on a mandatory basis from large debit card issuers show that certain costs incurred by these issuers have declined significantly; however, the interchange fee cap has remained the same. (emphasis added)."

Furthermore, the Fed seeks to implement "standards for assessing whether the amount of any interchange fee received by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the transaction (emphasis added)." These statements by the Fed are seriously flawed.

First, costs are different for all issuers and the Fed does not have data from medium and smaller issuers. If the Fed had a full picture of the costs incurred by all issuers, it would know that costs have actually increased dramatically. The small cost merchants pay for interchange to offset credit unions' costs to respond quickly (within seconds) is value-add to the merchants and does not come without significant costs to credit unions to keep technology updated and running smoothly. It is also extremely costly to replace and reissue cards due to fraud. Finally, our members (consumers) absorb a substantial amount of losses due to fraudulent misappropriation of funds being at an all-time high. Banks and credit unions, not merchants, carry most of the risk, responsibility, and cost to combat and detect this fraud. Additionally, AFCU devotes a significant amount of time to combat new scams, social engineering, mobile wallet and more. These are critical services to our members that we are able to fund in part because of interchange fee refunds; however these costs do not seem to be contemplated by the Fed's statement that "costs have declined". The Fed also does not seem to take into account that these costs will continue to rise as financial institutions must invest heavily to continuously educate consumers and protect against harm. Fraud and resulting costs have more than doubled at the end of 2023 going into 2024.

Secondly, The Durbin Amendment does not require the Fed further cap interchange fees. The notion that a "fraud-prevention adjustment increase from 1.0 cents to 1.3 cents" would adequately compensate for increased fraud-prevention costs to credit unions could not be further from the truth. AFCU uses card interchange to pay for fraud monitoring systems (Falcon), which is a very costly system.

For the reasons stated above, AFCU respectfully requests that the Fed abandon this Proposed Rule and not move forward with it simply for the sake of implementing a new rule. Please take the time to conduct a study and quantitative analysis on the impacts of this Proposed Rule as outlined in the pending Secure Payments Act (H.R. 7531). Credit unions depend on it.