

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

Description:

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From: Small Business & Entrepreneurship Council, Karen Kerrigan

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Comments:

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May 10, 2024

Ann E. Misback, Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Avenue NW

Washington, DC 20551

Dear Secretary Misback:

The Small Business & Entrepreneurship Council (SBE Council) is committed to protecting small businesses and promoting entrepreneurship. For more than thirty years, our organization has worked to improve and strengthen the ecosystem for vibrant startup activity and small business growth. The recent regulatory effort undertaken by the Federal Reserve that target debit card interchange fees threatens the payment systems that many American small businesses have come to rely on. In fact, according to SBE Council's survey of "Pandemic Era Startups," 87% of entrepreneurs report that access to electronic payment options was a very important factor in their decision to launch a business. Access to electronic payments tied for first as the most important tool or technology in starting a new business, according to new business owners. Undermining electronic payments through needless regulation undermines the startup ecosystem that drives competitiveness and growth. Debit cards are one of the most popular payment methods because they allow consumers to forego the extra step of carrying cash or applying for credit cards. Small businesses also depend on debit cards because they are safer, faster, and cheaper to process than cash, which is vulnerable to theft. Yet, the Federal Reserve recently proposed a rule to further lower the cap on debit card interchange fees from 21 cents to 14.4 cents per transaction. This would have devastating impacts on American small businesses and consumers.

We have seen the harm interchange caps have had on small businesses before. In the aftermath of the 2010 financial crisis, the Fed capped debit card swipe fees to help create cost savings for small businesses and consumers. But it did exactly the opposite.

Under the Durbin Amendment, it became harder for the community financial institutions many small businesses depend on to cover their operating costs. As a result, big and small banks were forced to eliminate debit card rewards, limit free checking, and increase account minimums. Not only did this make it harder for consumers to access banking, but it also put small businesses at a competitive disadvantage.

While big businesses were supposed to pass their cost savings down to consumers, they never did. Prices rose, and fewer small businesses were able to weather the storm. Some have estimated that retail and e-commerce giants pocketed more than \$90 billion in revenue from lost interchange fees. The Fed must look to 2011 as an example of what not to do. Please protect American small businesses and rescind this misguided policy.

Respectfully,  
Karen Kerrigan  
President & CEO