

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

Description:

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From: Lavonne Heaviland

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Comments:

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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

I'm writing to ask that the Federal Reserve not propose any changes to Regulation II, which regulates the interchange that banks can receive as compensation for processing debit transactions. My message is simple: debit card thresholds don't work, and proposals based on them will only continue the pretense that debit card interchange controls can be designed in a way that protects consumers. Unfortunately, and inconsistent with the Administration's stated position on fees, the predictable result of the merchants' demands will be higher fees paid by consumers while banks continue to bear the brunt of fraud loss, fraud prevention, and customer card support expenses. Regulation II has been costly for banks of all sizes and cuts to the core of our ability to offer affordable checking account products. Its routing provision, recently made more burdensome and costly by the Federal Reserve's card-not-present rule, directly impacts the revenue and fraud costs of every debit card issuer. The price caps applicable to many issuers not only further reduce their ability to offer affordable products to consumers, but also drive down net interchange for smaller issuers who are supposedly "exempt" from the price caps. Study after study has shown that Regulation II has been a wealth transfer from consumers to large merchants, primarily by increasing fees for checking accounts, and the large merchants have even acknowledged the positive revenue impacts in their earnings calls.

Recently, merchants have been given preference in regulator policies on debit cards and there has been a lack of focus on updating data collections regarding debit issuer costs, leading to outdated data sets that are not suitable for rulemaking. Rising and new incremental costs at all issuers, some driven by regulatory changes, have been ignored. The new routing rule, despite imposing high costs and enabling fraud cost manipulation by payments facilitators, was enacted while waving away financial industry concerns and giving full credit to the claims made by merchants and core processors. These incorrect assumptions permeate the data that the Federal Reserve collects on debit card processing. Foundational processing and support costs continue to rise for all issuers at a pace that exceeds gross interchange income growth, reducing net interchange income which is used to support and maintain an efficient, safe and secure payment channel. A payment channel merchants benefit from and rely upon to support their businesses.

I urge the Federal Reserve to recognize that it does not possess accurate data about the real-world experience of debit card issuers in the post-CNP rule world, as the data being considered is from 2018-2019 which is prior to significant investments in CNP processing and fraud detection/prevention systems. Any efforts undertaken now to change Regulation II will be based on nothing more than guesses about key factors. For that reason, the Federal Reserve should postpone its October 25, 2023 agenda item on Regulation II and instead undertake research, informed by industry expertise and using current data that accounts for current costs issuers incur in a post-CNP world.

Sincerely,

Lavonne Heaviland