

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

Description:

Comment ID: 156233

From: Curtis Armor

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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. 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.

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on debit cards and there has been a lack of focus on updating data collections regarding debit issuer costs, leading to outdated data sets that are not suitable for rulemaking.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. Further, increasing card fraud that is absorbed by the banking industry cost an estimated \$5.7 billion in 2022 according to Bankrate. Implementation of additional restrictions on income generated through issue and use of cards to benefit merchants who have little or no liability in many cases makes no economic sense and does not save the consumer one single dime.

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. 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.

Sincerely,

Curtis Armor