

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

Description:

---

Comment ID: 157203

From: Carolinas Credit Union League, Nathan Lane

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

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

---

Comments:

Date: Jan 09, 2024

Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]

Document ID: R-1818

Revision: 1

First name: Nathan

Middle initial:

Last name: Lane

Affiliation (if any): Carolinas Credit Union League

Affiliation Type: Other (Oth)

Address line 1: 508 Hampton Street

Address line 2: Suite 300

City: Columbia

State: South Carolina

Zip: 29205

Country: UNITED STATES

Postal (if outside the U.S.): 29201

Your comment: The Honorable Jerome Powell Chair Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue NW Washington, DC 20551 Dear Chair Powell: The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) directed the Board of Governors of the Federal Reserve System (Board) to impose rules regulating interchange. Specifically, the Durbin Amendment required the Board to establish 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 debit card transaction. In 2011 and 2012, the Board did this through the adoption of Regulation II which imposed dual routing requirements on all debit card issuers and imposed a debit interchange fee cap on issuers with more than \$10 billion in total assets. On Wednesday, October 25th the Board held a meeting to discuss proposed revisions to the existing debit interchange fee cap. Just 20 minutes before the start of that meeting, the Board released a 110-page Notice of Proposed Rulemaking (NPRM) that was subsequently voted on and approved for future publication. I write today to express concerns over the NPRM rule to amend Regulation II recently published in the Federal Register. Interchange revenue is used to support the payments system, which is an electronic method of delivery of funds from a financial institution to a retailer or merchant. If adopted, the proposed changes to Regulation II would significantly alter the existing system. Such a consequential decision in the payment space should not be made without an exhaustive assessment of fact-based research. The Board's proposal does not reflect the current state of covered debit card issuers and the regulatory environment they must navigate. Importantly, the issuer cost and fraud data from which the Board is deriving their proposal is not reflective of far-reaching changes to debit routing regulations that were imposed on all issuers on July 1st of this year. This regulatory change has direct bearing on the data, including authorization, clearing, or settlement costs that form the basis for justifying the proposed change to the covered issuer rate cap. There is now more than a decade's worth of post Dodd-Frank Act data displaying a decrease in revenue for card issuers as a direct result from over-regulation in the operation of payment systems. As a result, card issues are expected to cover the growing expense of debit card processing,

heighten security mechanisms necessary for consumer protection, and continue to help revolutionize the payment space with less. Board Governor Michelle Bowman echoed these concerns during the October 25th meeting. She noted that "while the interchange fees many smaller issuers have collected since the introduction of the interchange fee cap have remained largely stable, it is difficult to determine how this compares to the aggregate costs of processing, fraud and fraud prevention, and the many other inputs for running a debit card program. It is not clear that interchange fees have kept up for many smaller issuers, and I am concerned that even if the interchange fee cap does not directly apply, smaller issuers will continue to face ongoing fee pressure in operating debit card programs." The adoption of Regulation II in 2011 brought a significant decrease to free checking and an increase in other fees and costs by financial institutions to make up for lost revenue. The Board's proposed cut to the cap will once again force financial institutions to make up for this lost revenue in other areas. This impact is especially acute for credit unions and other, smaller financial institutions. A recent Government Accountability Office (GAO) study ranked the Durbin Amendment "among the top five laws and regulations most cited as having significantly affected the cost and availability of basic banking services." It further concluded that the regulation was associated with increases in the costs of checking accounts and a decrease in the availability of noninterest checking accounts without monthly fees. While smaller financial institutions (fewer than \$10 billion in asset holdings) are "exempt" from the existing debit interchange cap created by the Durbin Amendment, studies like those conducted by the GAO have shown that government-mandated interchange price caps disproportionately harm local, community financial institutions. There appears to have been very little consideration of the changes in market realities over the past decade as the Board reached its decision to advance proposed changes to Regulation II. This is in direct contradiction with the directive of the original rule to "establish 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." Debit cards are utilized by the vast majority of Americans. For that reason, I request that the Board extend the current NPRM comment period listed on the Federal Register to allow additional time to compile industry observations so that the Board may better assess the full scope potential effects these changes would have on such a vital payment tool. As Governor Michelle Bowman aptly stated during her testimony on October 25th, it is important that we "understand the intended and unintended consequences of (these) revisions."