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

Description:

Comment ID: 158972

From: Summit Credit Union, Kim M. Sponem

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

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

Comments:

Date: Apr 24, 2024
Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
Document ID: R-1818
Revision: 1
First name: Kim
Middle initial: m
Last name: Sponem
Affiliation (if any): Summit Credit Union
Affiliation Type: Other (Oth)
Address line 1: 1709 Landmark Dr.
Address line 2:
City: Cottage Grove
State: Wisconsin
Zip: 53527
Country: UNITED STATES
Postal (if outside the U.S.):

Your comment: Ann E. Misback, Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20551 Re: Docket Number R-1818, RIN 7100-AG67 Dear Ms. Misback: Thank you for the opportunity to submit comments to the Board of Governors of the Federal Reserve in the matter of the Notice of Proposed Rulemaking regarding changes to Regulation II, which establishes standards for assessing the level of interchange fees paid to debit card issuers. About Summit Credit Union Established in 1935, Summit Credit Union is a member-owned financial cooperative. Summit holds $7.2 billion in assets and has more than 258,000 members and 983 employees across 61 locations throughout Wisconsin. In 2023 alone, we saved our members $28.4 million, or an average of $240 per member household, through lower loan rates, higher savings rates and fewer fees than for-profit banking institutions (source: America's Credit Unions Member Benefits Report, 2023). Additionally, we provided 213 live, free financial education programs open to the public - reaching more than 24,117 people; we also operate five school-based branches serving young adults. Our Feedback on the Proposal We are able to provide the savings and make the kinds of investments in financial education and wellness in our community, as noted above, in large part to the fee income we receive as a result of providing valued services to our members. While at $7 billion in assets we would not be currently impacted directly by the Rule's proposed limits in Debit Card interchange, the past experience in implementing Regulation II to the Durbin Amendment back in 2011 showed a clear "trickle-down" effect on smaller issuers such as ourselves. Routing mandates have resulted in an increased burden on credit unions that have seen their revenues cut by almost a third for single message transactions. By 2018 revenue from single message transactions have declined to a level that is nearly identical to both exempt and covered transactions. In 2010 when the Durbin Amendment capped debit interchange fees, retail groups promised lower prices for goods since they would pay less in interchange fees. According to the Federal Reserve's own data, that did not happen, and consumers only saw the cost of essential banking services increase and debit reward programs either slashed dramatically or disappear completely, while retailers saw historic profits. A study from the Government Accountability Office1 found that "covered banks were about 35 percent less likely to offer non-interest checking accounts without monthly fees" and "researchers estimated that if the regulation had not been implemented, 65 percent of non-interest checking accounts offered by covered banks would have been free." The report also found that the Durbin Amendment was one of the most harmful laws relating to banking access and the cost of banking. In part, this is due to the substantial industry changes which have taken place since the 2011 enactment of the Durbin Amendment. In 2011 there were approximately 7,300, yet by the end of 2022 that number was 4,800, a 34% decline. Banks often have larger commercial customer bases versus the overwhelmingly consumer-oriented credit unions. This difference provides a larger base for many banks to derive diverse sources of fee income. For many credit unions, interchange income makes up a more significant portion of their overall fee income. This difference has a very real impact. According to an analysis by Cornerstone Advisors which cites: If a credit union crosses the $10 billion threshold, it would likely require a doubling of credit union members to recoup the lost revenue2. The alternative, of course, is to reduce other services provided to members and/or the community at large, or raise other fees, which are more likely to direly impact their members directly. The increasing costs of fraud prevention and recovery also impact us. A CUNA research study in 2020 and 2021 found that fraud and program expenses have increased yet interchange revenue has declined. The true cost of fraud goes beyond the cost of the fraudulent transaction. There are labor and management costs along with a dispute and the increased cost of fraud prevention. In addition, merchants are not held to the same data security standards as issuers and processors so therefore can be a target for merchant breaches. On behalf of credit unions and our members across the country, I testified in front of the House Financial Services Committee in 2018 on data security and as part of that, merchants' lack of security in protecting their customers' information. The expenses that stem from fraud and breaches threaten to eliminate or weaken the availability of card programs at credit unions. In conclusion, we urge the Board to reconsider this proposed amendment. We believe that its implementation will have a deleterious effect on financial institutions' such as ourselves' ability to provide our members with the kinds of financial and educational benefits that revenue sources, such as interchange income, allow us to do. Sincerely, Kim Sponem CEO and President Summit Credit Union kim.sponem@summitcreditunion.com