



February 15, 2024

Ann E. Misback

Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitutional Avenue NW Washington, DC 20551

Re: Docket No. R-1818, RIN 7100-AG-67

Re: Notice of Proposed Rulemaking; Debit Card Interchange Fees and Routing

Dear Secretary Misback:

On behalf of the League of Southeastern Credit Unions (LSCU), we are writing in robust opposition to the Federal Reserve's proposed changes to Regulation II that establish new standards for assessing the amount of interchange fees received by debit card issuers.

LSCU advocates for nearly 300 Alabama, Florida, and Georgia credit unions and their more than 12 million credit union members. Collectively, our association represents nearly \$200 billion in assets. Credit unions are not-for-profit member cooperatives which aim to lower the cost of credit and increase the rate of return on savings for members. Credit unions play a critical role in helping consumers achieve their financial goals, empowering members from all walks of life with the financial resources needed to succeed, and growing and advancing local communities. This proposal will severely thwart that mission.

Background

The proposed regulation would update all three components of the interchange fee cap for financial institutions having more than 10 billion in assets. Under the proposal, the base component would decrease from 21 cents to 14.4 cents, the ad valorem component would decrease from 5.0 basis points (multiplied by the value of the transaction) to 4.0 basis points (multiplied by the value of the transaction), and the fraud-prevention adjustment would increase from 1.0 cents to 1.3 cents for debit card transactions subject to the interchange fee cap. The debit card interchange fee cap was part of the so-called "Durbin Amendment" to the Dodd-Frank Act. The Act required the Federal Reserve Board to promulgate a regulation establishing maximum debit card interchange fees that are "reasonable and proportional to the actual cost" of processing the transaction.

Consumer and Member Impacts

These proposed changes to Regulation II will not only adversely impact consumers, but they will also make it increasingly difficult for all credit unions to offer affordable financial tools that Americans rely on to purchase essential everyday items like gas and groceries.

In 2011, the Durbin Amendment was passed targeting debit card interchange fees with the promise that it would curtail the number of fees consumers paid when utilizing their cards. A subsequent report published by the Richmond Fed pointed out that 98% of merchants did not pass along those savings to customers.¹ Increasingly, merchants are charging consumers surcharges for payments made using credit

¹https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_brief/2015/pdf/eb_15-12.pdf



cards.² Additionally, more than 20% of merchants increased their prices and many popular debit card rewards programs which once offered perks like airline miles and cash back have either discontinued or severely scaled back.³ Those changes hurt American consumers of all income levels, but especially those who rely on rewards to stretch the dollar.

The impact of the Durbin Amendment provides a case study on what can be expected in the event of further regulation of the payment system. Further restriction of the debit card interchange fee structure could force financial institutions to end popular low or no cost financial services such as free checking and other perks. Without sufficient interchange investment support, at a time when interest rates are increasing and fraud rates are soaring, financial institutions would likely be forced to take a hard look at the affordability of providing these services; and some may be forced to end these amenities out of budgetary necessity.

Small Business Impacts

While this proposal is aimed at financial institutions with assets over \$10B, it fails to consider the unique challenges and varied business models that smaller institutions utilize to operate in an efficient manner to best serve communities. Overall, credit unions typically absorb higher transaction costs due to lower processing volumes. According to the Federal Reserve's own research, "In 2019, the average ACS cost for mid-volume issuers was over three times higher than the cost for high volume issuers, whereas the cost for low volume issuers was more than 20 times higher than the cost for high-volume issuers."⁴ Small credit unions are experiencing this regularly and rely primarily on non-interest income such as interchange fees to fund fraud-related expenses and mitigation, keep the cost of banking low, and provide affordable access to credit. While banks can capture higher interest rate returns to enable funding of the foregoing, it must be noted that credit unions are statutorily limited in the amount of interest they may charge.

The proposed changes do not address these discrepancies. The potential for market distortion that could arise from the proposed changes would be felt by all financial institutions – regardless of asset size. There is a significant chance that credit unions falling below the \$10B threshold will be subjected to the pressures related to these fees in sustaining a debit card program. Additionally, financial institutions already near or quickly approaching the \$10B threshold may choose to put the brakes on growth to avoid losing a key revenue stream they count on to reinvest in member protection and education, data security, and more. This chilling effect could further accelerate consolidation in the banking sector and reduce access to affordable financial services in the places that need it most.

Revenue Impacts

The current interchange fee cap provides a level of predictability to which the market has adjusted. Changing the cap, in this era of increased interest rates, increased inflation, and soaring levels of fraud, will likely introduce uncertainty and less competition in the market, making it more challenging for businesses and consumers to plan long-term financial strategies. Stability in the payment system is crucial for stoking America's economic engine and creating stable financial footing for families.

² "What are credit card surcharges and where are they legal?" Taylor, Mia, *Fortune*, <https://fortune.com/recommends/credit-cards/what-are-credit-card-surcharges/>

³ https://www.richmondfed.org/~media/richmondfedorg/publications/research/economic_quarterly/2012/q3/pdf/wang.pdf

⁴ https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2019.pdf



Changing the cap will undoubtedly lead to adjustments in business models, potentially affecting the availability of certain financial products or services, and ultimately harming consumers, as well as the member cooperative credit unions that serve them. We recommend that the Board carefully consider the probability of unforeseen ripple effects and unintended outcomes that could arise from altering the existing regulatory framework.

In Conclusion

LSCU appreciates the opportunity to provide comments on behalf of our members. However, we strongly encourage the Board to immediately reconsider this proposal and engage in deeper discussions with financial institutions across the nation to find a better and more balanced approach that protects consumers and the integrity of the payment system.

Sincerely,

Grace Newcombe
Vice President of Federal Advocacy and Communications
League of Southeastern Credit Unions