



453 7th Street
Des Moines, IA 50309

May 9, 2024

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Via electronic delivery to regs.comments@federalreserve.org

Re: Regulation II: Docket No. R-1818, RIN 7100-AG67

Dear Ms. Misback:

Thank you for the opportunity to comment on the proposed Regulation II: Debit Card Interchange Fees and Routing [Docket No. R-1818].

Bankers Trust is the largest, privately owned bank in the state of Iowa, with 12 locations across Central Iowa, two in Cedar Rapids, Iowa and three in Phoenix, Arizona. Bankers Trust also has offices in Omaha, Nebraska and Sioux Falls, South Dakota. Bankers Trust offers a full breadth of banking services which include: personal banking products, treasury management services, global banking services, consumer and commercial lending, and wealth management services. A corporate leader in the communities we serve, Bankers Trust has approximately 600 employees and has received numerous awards and recognitions for its charitable giving, volunteerism, and support of the community, as well its commitment to promoting diversity and inclusivity.

As an institution with consolidated assets totaling less than \$10 billion, Bankers Trust understands we are exempt and not currently subject to the interchange fee cap. However, after careful review of the proposed revisions to Regulation II, we believe nonetheless our bank will be detrimentally affected by this proposal as exempt issuers may also see a decrease in debit interchange revenue which results from downward pricing pressure. Bankers Trust will face even more significant financial impacts as we continue to grow and reach the \$10 billion threshold.

Bankers Trust is respectfully asking the Federal Reserve to take additional factors into consideration and withdraw the proposed revisions to Regulation II's Debit Card Interchange Fees and Routing. Interchange revenue is essential to cover the costs of administering and maintaining our debit card programs, including but not limited to the costs associated with:

- Processing transactions,
- Card plastics (with security features), production and delivery,
- Maintaining card files,
- Compliance and risk management,

- Fraud detection and prevention systems,
- Risk services and mobile app card controls for cardholders,
- Fees incurred from the payment networks,
- Labor spent servicing cardholders in person and over the phone through our call center or operations department,
- Systems, processing expenses and labor spent managing debit card disputes,
- Charge-offs we take on claims of fraudulent debit card transactions, and,
- Labor spent managing compromised card events caused by merchants and/or their processors along with the cost of issuing replacement plastics.

Bankers Trust offers free debit cards to its accountholders, both for consumer and business customers. Furthermore, Bankers Trust owns and maintains a fleet of 21 ATMs in Central Iowa, two in Cedar Rapids, and one in Phoenix. Bankers Trust participates in the Allpoint and MoneyPass networks, allowing our debit cardholders access to thousands of ATMs throughout the United States fee free. Bankers Trust incurs considerable annual expenses to provide its customers free or low-cost, convenient access to payment networks throughout the communities we serve and beyond.

Further reductions in debit interchange revenue as proposed will result in higher costs to consumers and small businesses to defray the costs to Bankers Trust to maintain access to payment networks throughout its communities. Additionally, reductions in debit interchange revenue will result in reduced innovation in the payment networks and may restrict the products and services financial institutions offer in their communities.

Of additional concern is the unknown and potential impacts on debit interchange revenue, issuer costs and fraud losses resulting from the card-not-present debit routing rule that went into effect in July 2023. The data, on which the proposal's calculations rest, does not capture the impacts of this.

Bankers Trust has seen success and growth throughout the years, expanding its markets and product offerings along the way. Once the bank's assets reach \$10 billion, Bankers Trust would no longer be classified as exempt and would therefore experience an estimated 49% decrease in debit interchange revenue. If adopted, the Federal Reserve's proposal would reduce the current debit interchange cap by approximately 30%, which would result in an even larger decrease in revenue.

Respectfully, it seems unreasonable and inherently risky for the financial industry, to expect any financial institution, including those with consolidated assets of \$10 billion or more, to not be able to recover even the allowable costs that are factored into the interchange fee cap. It is also concerning to have the cap set across such a wide range of asset levels for debit card issuers, especially after seeing the proposed cost recovery target being set to where approximately a third of the covered financial institutions will not be able to recover even their base component costs, which is not inclusive of all debit card costs. Even financial institutions with \$10 billion in assets would not have the same economies of scale and opportunities for operational efficiency as those that are significantly larger, such as those exceeding \$100 billion in assets. All financial institutions, including covered issuers, should have a reasonable expectation to achieve cost recovery.

Finally, the proposal's creation of an automatic adjustment to the price cap every two years, without the public being given the opportunity to comment, will cause economic damage from the misunderstandings inherent in the proposal's formula and flawed data to grow over time. The proposed timing for the automatic adjustments and publishing the amounts for the next applicable period does not allow adequate time to factor the financial impacts into annual budget processes. In addition to this, the proposed timelines would mean financial institutions will potentially have another cap adjustment within a short time frame.

The Federal Reserve is strongly urged to recognize that it does not possess current and comprehensive data about the real-world experience of debit card issuers who are now operating under its new card-not-present rule, nor has it realistically estimated the costs to consumers and competition. The Federal Reserve should withdraw the proposed revisions to Regulation II that would further lower the interchange rates and instead undertake research that is informed by industry expertise.

Thank you for your time.

Sincerely,

Randall D. Bergman

Randall D. Bergman
SVP, Senior Operations Officer
Bankers Trust Company