

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

**Re: Docket No. R-1818, RIN 7100-AG-67
Notice of Proposed Rulemaking: Debit Card Interchange Fees and Routing**

Dear Ms. Misback,

I own one gas station/convenience store 20 miles west of Boston. I bought it in 2010. I don't draw a salary from it; I take owner distributions. A full-time manager runs the operation; I oversee the business. Overseeing the business means visiting the store multiple times a day, doing the books, paying the bills, performing the upkeep, and addressing whatever challenges the proprietor of a small town's single essential retail establishment is called upon to address. It is a 24/7 assignment.

Owner distributions from the business are my wife and my primary source of income. We are both 62. It is our hope the business will serve as a retirement vehicle.

In my 2023 fiscal year:

- Fuel revenue was \$3,683,479.
- Merchandise revenue was \$822,997.
- I had one full-time employee and four part-timers.
 - Salaries, Payroll Taxes and Payroll Service Fees were \$139,182.
 - Credit and Debit Card Fees were \$82,094.
 - **Of that total, \$14,030 was debit card fees: 1.48% of my electronic receipts.**
- **Credit and Debit Card Fees were my #2 operating expense.**

Mine is a small business; I do between 400 and 550 transactions a day. Running it sustainably requires judicious decisions around cash flow. I have to maintain a balance between what I pay my employees, how much I spend on improvements, and how much I take out to keep my wife and me housed and fed.

Hardly a day goes by when I don't feel guilty for not paying my full-timer more. He's been with me nearly 14 years and has been key to my success. The first thing I'd do with meaningful savings on credit and debit card fees would be to acquire health insurance coverage for him and my other employees.

I'm an experienced operator and I understand costs. I support the Fed's proposal to reduce the maximum debit interchange fee for regulated debit card issuers and to establish a regular process for updating the interchange fee limit every other year. These steps are long overdue. **But the Fed's new proposed fee limits are much too high; the limits should be made even lower when the**

Fed writes its final rule. And it's critically important the Fed safeguards the process for future fee limit adjustments, so banks can't manipulate it by inflating or misrepresenting their costs.

In my view, the Fed and the Treasury have for years abdicated their joint responsibility to regulate the means of exchange in this country. As a result, the financial services industry has inserted itself in such a way as to prey on an oblivious public. As a brick-and-mortar retailer I see precious little of the efficiencies that ought to have accrued from our evolution from a cash-based to an electronic payment-based consumer economy.

Debit cards are electronic versions of paper checks. Thanks to Fed regulation paper checks clear at par. (I'm not a historian, and libertarians might disagree, but it's hard to dispute that that single piece of regulation contributed substantially to creating the world's most robust economy.) When I take yesterday's cash receipts to the bank the incremental cost of depositing checks with that cash is zero. Except no one – literally not one of my customers – uses paper checks any more.

Transactions that more than a hundred years ago the Fed intended would impose zero incremental cost on retailers like me now cost 1.48% of electronic payment receipts: \$14,030 in my case.

Instead of taking friction out of the system the federal government, by abdicating its responsibility, has in effect imposed a 1.48% deadweight cost on my business while enriching rent-seeking actors in the financial services industry.

When the Fed issued Regulation II to implement the Durbin Amendment, the Fed's final rule adopted a base limit of 21 cents for debit swipe fees fixed by card networks on behalf of banks with over \$10 billion in assets. The current proposed rulemaking by the Fed would lower the debit swipe fee base component from a maximum of 21 cents to 14.4 cents. That reduction is a step in the right direction. But the Fed's latest data found the average allowable costs of covered issuers are "approximately half" of what they were when the rate was initially set; it is therefore laughable that the NPRM only reduces the base component fee by less than one-third.¹

The proposed rule allows banks to pocket debit interchange revenues worth nearly four times their costs. **With electronic payments being ubiquitous, this is neither reasonable nor fair to merchants and consumers who, by virtue of the Fed's abdication, have no choice but to pay higher prices when swipe fees are fixed at windfall levels.** The final rule should further reduce the 14.4 cent base component limit to a level that reflects the fact that the average allowable costs for covered issuers are now "approximately half" of what they were when the base component fee was set at 21 cents.

Finally, I support the Board's proposal to regularly update the debit swipe fee limits every other year, especially given that the limits have not been updated at all in the 12 years since Regulation II was issued. But the Fed must not lock in the excessively high 3.7 multiplier for the base component fee. That must be lower (with 2.7 being a very high, maximum number). The Fed also must take great care to monitor the cost data being submitted by covered issuers to watch out for issuers that try to inflate or misrepresent their costs or to shoehorn non-allowable costs into the calculation.

¹ Federal Reserve Board, "2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions," October 2023, at p. 3.

I urge the Fed to move forward with its proposed fee reductions and its process for regular future adjustments, but with lower fee levels and with careful safeguards to prevent big bank manipulation of the process. Reining in debit swipe fees will help Main Street businesses like mine manage a cost that has for too long been insulated from marketplace competition, and that will our communities.

Thank you for considering my views.

Sincerely,



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