



May 10, 2024

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

Re: Debit Card Interchange Fees and Routing, R-1818

Dear Secretary Misback,

Thank you for the opportunity to provide input on the proposed amendment to Regulation II issued by the Board of Governors of the Federal Reserve. As President and CEO of an organization that shares in the effort to protect consumers from predatory financial practices, it's my duty to share the unfortunate implications that this amendment is likely to have for the financial services industry and for many U.S. consumers, especially those who are already most vulnerable.

Veridian Credit Union is a financial cooperative based in Waterloo, Iowa with a 90-year history of meeting the unique financial needs of our communities. We're owned by the 338,000 members we serve and operate with \$7.6 billion in assets. Veridian is Low-Income Designated (LID) by the National Credit Union Administration (NCUA) and certified as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury. Our mission is to partner with our members to create successful financial futures. That work often includes customizing financial products and services to help make successful financial futures more attainable for low-income and underserved communities.

While I applaud the intention to protect consumers from exorbitant fees, we don't have to speculate whether routing mandates and reduced debit interchange fees are effective means to that end. In the 13 years since The Durbin Amendment became law, several studies by many scholars and economists are well-documented in finding that stifling flexibility in financial fee scheduling has led to fewer low- and no-cost services like free checking, and fewer consumer benefits like rewards programs. Since studies have also shown that merchants are not likely to pass along fee savings, consumers lose accessibility and savings in financial services without benefiting from the price reductions from merchants. This is especially devastating to underserved, low-income consumers who rely on low- and no-cost services to access mainstream financial services and reduce their dependency on predatory alternatives.

In summary, the most concerning consequences of the proposed amendment are its cost to consumers, potential impacts to payment system security and undue burden on the community financial institutions it seeks to exempt.

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Consumer Cost

The Electronic Funds Transfer Act requires that “the consumer protections of the proposed regulations outweigh the compliance costs imposed upon consumers and financial institutions.” Since studies have shown that merchants aren’t likely to pass fee savings on to consumers, the amendment creates more costs for consumers than savings or protection. Reducing the debit interchange fee cap would require financial institutions to cover the cost of keeping payment systems secure by reallocating funds invested in other products and services. History has shown that low- and no-cost services that underserved, low-income consumers depend on are likely first targets. Services like free checking are bridges to the financial mainstream that help low-income consumers avoid damaging cycles of more expensive, predatory financial services. A decrease in low- and no-cost services among financial institutions will usher more low-income consumers out of the safety and security of the financial mainstream.

Payment System Security

Interchange fees are a necessary cost of maintaining secure payment systems, especially at a time when fraud offenders are becoming more sophisticated and creating record losses. While merchants financially benefit from their customers’ access to secure digital payment systems, financial institutions and consumers are most often liable for fraud losses if that system is compromised. Incentivizing merchants to choose the lowest-cost processing option will constrain the issuer’s ability to invest in that system’s security. To be effective, the cost of providing secure payment systems must be shared by all who benefit from them at a rate that is allowed to fluctuate with market demands. Reducing the debit interchange fee cap would create an unnecessary obstacle in issuers’ effort to keep U.S. digital payment systems secure.

Ineffective Asset Threshold

The amendment acknowledges the strain it would put on community-based financial institutions by establishing a \$10 billion asset threshold. In reality, smaller community-based banks and credit unions don’t exist in a vacuum. They share markets and communities with the larger institutions that the amendment seeks to regulate, and they face market pressure to comply with debilitating regulations that threaten to accelerate their rate of consolidation. Again, history has proven asset thresholds to be ineffective in insulating exempt organizations from harm. If the final amendment must include an asset threshold, I recommend considering a tiered approach with a higher starting asset level that allows financial institutions to adjust to this change as they grow.

The intention to protect consumers from exorbitant, predatory fees is a noble one, and I’m grateful for your efforts. Unfortunately, the efficacy of routing mandates and reduced interchange fee caps in achieving this goal has been thoroughly studied* and disproven. I urge you to explore new strategies to benefit U.S. consumers and avoid repeating unintentional harm.

Thank you for your attention to the important work of protecting consumers and for the opportunity to offer input on this proposal.

Sincerely,



Renee Christoffer
President and CEO

* See Cornerstone Advisors, The True Impact of Interchange Regulation (June 2023) *available at* <https://www.cuna.org/content/dam/cuna/advocacy/priorities/documents/True-Impact-of-Interchange-Regulation-CornerstoneAdvisors-June-2023.pdf>