



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 (Docket No. R-1818; RIN 7100-AG67)

Dear Ms. Misback,

As a federal credit union headquartered in El Paso, TX, GECU Federal Credit Union (GECU) serves over 434,700 members and maintains more than \$4.3 billion in assets. GECU appreciates the opportunity to comment on the proposed amendments to Regulation II issued by the Board of Governors of the Federal Reserve System (Board).

GECU vehemently opposes any decrease in the cap on debit card interchange fees due to the adverse effects it would impose on both credit unions and their members and communities. Although the Durbin Amendment excludes smaller financial institutions, historical data indicates that regulatory thresholds within the interchange market fail to protect smaller issuers like GECU from negative consequences. Furthermore, the Board does not adequately consider the negative impact the proposal will have on consumers nor does the proposal sufficiently account for the increased costs experienced by financial institutions.

Impact on Exempt Issuers

The proposed rule relies on a flawed methodology that overlooks the cost experienced by most issuers, including exempt credit unions. We know from experience the \$10 billion exemption is hollow as any change in debit interchange fees is felt throughout the financial industry. The Federal Reserve's own data shows that from 2011-2022, per transaction debit interchange for exempt financial institutions fell by 35 percent for single-message transactions and 8 percent for dual-message transactions, reducing total interchange revenue compared to what would have likely been generated without the Durbin Amendment¹. A decrease in debit interchange revenue will have ripple effects across our operations, as abandoning our debit card program is not practical. The enactment of the Durbin Amendment, alongside recent laws and regulations targeting non-interest income sources, has profoundly influenced the credit union industry's competitive viability. Moreover, any additional reduction in interchange revenue could endanger our ability to continue delivering savings and benefits to members. To combat the effects of this proposal, GECU and other credit unions will need to explore different avenues to offset lost revenue, which may include introducing and raising fees for services such as checking accounts, debit cards (via annual fees or for card issuance/replacement), or other charges.

Negative Impact on Consumers

As a non-profit financial cooperative committed to serving the underserved, the revenue from interchange fees aids in maintaining operational viability, ensuring that we can continue to serve our members effectively, irrespective of the broader economic climate. Interchange further enables and supports not only the accessibility of debit cards but allows us to serve our members by offering competitive rates and terms while supporting our community at large. While the Board's commentary suggests that our members would benefit financially from this amendment resulting in merchants lowering their prices, the opposite has been demonstrated over time after the passing of the original legislation in 2011. The Government Accountability Office (GAO) conducted a study that highlighted the Durbin Amendment as one of the top five laws frequently referenced for its notable influence on the affordability and accessibility of essential banking services due to the identified increase in checking account costs and decrease in the availability of non-interest-bearing

¹ Board of Governors of the Federal Reserve System (2023), "[Average Debit Card Interchange Fee by Payment Card Network.](#)"

checking accounts without monthly fees.² Additionally, studies indicate that merchants are unlikely to transfer their cost savings to consumers. A report from the Federal Reserve of Richmond reported that only 1.2 percent of merchants reduced their prices post-regulation while 21.6 percent increased their prices, failing to pass along any of their regulatory savings onto consumers³. From 2012 to 2022, issuers collectively lost nearly \$106 billion in interchange revenue, a figure that largely represents what merchants kept for their own gain.⁴ Not only will merchants not pass on their cost-savings to consumers, but credit unions will also be forced to adjust to reduced interchange by passing on a greater share of costs to consumers or eliminating necessary services. GECU serves a predominately low to moderate income membership and the revenue generated from interchange fees also allows us to support our community through free financial literacy programs and other community programs such as our community center providing afterschool care and monthly food pantry, scholarships, and general community support.

Increased Costs

The Federal Reserve has also improperly excluded certain categories of allowable costs when calculating the fee cap, Such costs include those related to non-fraud-related cardholder inquiries, NSF losses and handling costs, card production costs, and fraud losses resulting from certain international transactions. Denying credit unions recovery of these costs increases the likelihood that credit unions may need to operate their debit card programs at a loss. Moreover, the Board has neglected to factor in how recent amendments to Regulation II will exacerbate the compression of issuers' interchange margins, highlighting a critical flaw in their approach, which centers on outdated 2021 Debit Card Issuer (DCI) survey data, failing to account for recent changes to card-not-present (CNP) routing rules impacting all issuers.

GECU's debit card program is a service bearing significant operational costs related to transaction processing, fraud prevention, account management, compliance requirements, and more. In 2023, GECU's debit card program expense totaled nearly \$18 million. Further, since 2019, the average year-over-year increase in total debit card fraud losses has totaled over 25 percent. In 2023, GECU's total costs related to debit card fraud totaled more than \$3.5 million. Although not directly applicable at this time, we estimate that the proposed interchange cap could have the potential to reduce our interchange income by approximately 48 percent or \$8.39 million annually (based off 2023 debit interchange income volume), should GECU no longer meet the exempt threshold.

The proposal threatens to undo the significant effort credit unions have undertaken to expand access to affordable financial services and increase financial literacy throughout our communities. We urge the Board to withdraw the proposal until it adequately considers the impact on exempt issuers.

If you have questions regarding our comments, please contact me at (915) 774-8203.

Sincerely,



Crystal Long
President/CEO

CL/nb

² GAO-22-104468 (February 2022), available at <https://www.gao.gov/assets/gao-22-104468.pdf>.

³ Wang, Zhu, Schwartz, Scarlett and Mitchell, Neil, "[The Impact of the Durbin Amendment on Merchants: A Survey Study.](#)" (2014) Federal Reserve Bank of Richmond Economic Quarterly, Volume 100, Number 3.

⁴ Cornerstone Advisors, "[The True Impact of Interchange Regulation](#)," 20 (June 2023)