



May 10, 2024

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

BY ELECTRONIC MAIL ([regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov))  
Re: NPRM on Debit Card Interchange Fees and Routing and Regulation II  
Docket No. R-1818 RIN: 7100-AG67

On behalf of Bethpage Federal Credit Union (Bethpage) and our 467,627 members, we appreciate this opportunity to offer comment on the Federal Reserve Board of Governors (Fed) proposed revisions to Regulation II (Debit Card Interchange Fees and Routing). This regulation is intended to implement that provision in the Dodd-Frank Act requiring the Federal Reserve to set standards assessing whether debit interchange fees are “reasonable and proportional” to issuer costs related to the transaction.

Bethpage was founded in 1941, has \$13.1 billion in assets, and primarily serves consumers on Long Island and the five boroughs of New York City.

The Fed proposed this rule on November 14, 2023. Bethpage strongly encourages the Fed to revise the regulation due to minimal if not non-existent consumer benefit, insufficient documentation provided by the Fed to justify the new rule’s increased requirements, and inadequate attention to the real-world costs to financial institutions that issue debit instruments.

The statutory debit card interchange cap, known colloquially as the Durbin Amendment, was originally put in place in 2010 and implemented through regulation in 2011. This statutory provision has not yielded promised savings to consumers; in fact, the Fed’s own survey, issued by the Federal Reserve Bank of Richmond in December 2015, concluded that the Durbin Amendment provides minimal benefits to end-users (consumers). In addition, the Fed appears to have ignored or failed to factor data security considerations associated with financial institution debit card programs, particularly related to the use of debit interchange income to improve security and prevent or mitigate cybercrime.

Bethpage offers specific operational information about the adverse financial impacts that will hopefully inform your deliberations:

- The proposed revision to Reg II will seriously limit Bethpage's ability to recover costs associated with the debit program including operating costs (authorization, clearance, settlement) and fraud costs (fraud prevention, member education, and fraud reimbursement). The current interchange income only covers 72% of Bethpage's costs associated with this product offering, which would fall to an estimated 52% under this proposal.
- We calculate a \$4.4 million shortfall in income (increase annually) —the costs of offering the program exceed the revenue by that amount. This will affect other services and products that we could offer to our membership.
- The proposed revisions would double that shortfall to \$8.5MM a year, an additional \$4.3MM in uncovered costs (interchange less operating and fraud expense).

The \$10B threshold for Durbin inclusion is too low to reach cost recovery based on high fixed operating costs and reduced scalability for smaller institutions; exacerbated by the significant increase in fraud losses and associated fraud prevention costs. Furthermore, it is our observation that Reg II appears to be tailored to significantly larger financial institutions with greater scale, staffing and other resources to devote to fraud and loss prevention.

In short, the proposed changes to Reg II are unworkable, unreasonable and pose a potentially negative impact on Bethpage's ability to offer debit card products to our member-owners without impacting other education, fees, interest rates, or other member services. Bethpage strongly encourages the Fed to withdraw and reconsider the proposed changes and conduct significant additional study regarding the overall member impact of this rule, particularly regarding costs to consumers.

There are additional avenues to consider that may assist the Fed in improving the policy outcomes before finalizing this rule. Reps. Blaine Luetkemeyer (R-Mo.) and Andy Barr (R-Ky.) recently requested a Government Accountability Office study on the possible impacts of the proposed alteration of Reg II, specifically concerning the adverse impact on affordable financial products and services for low-income consumers. There is also a "stop and study" bill, introduced by Rep. Luetkemeyer, HR 7531, that directs the Fed to take additional steps and consider a broader scope of information to review this rule. We strongly encourage the Fed to take advantage of these options prior to making final changes to Reg II.

Bethpage appreciates this opportunity to offer comments and encourages you to contact us if you have any questions or suggestions on the matter.

Sincerely,



President and CEO, Bethpage Federal Credit Union