



May 10, 2024

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

**Re: Debit Card Interchange Fees and Routing - Docket No. R-1818 RIN: 7100-AG67**

*Filed electronically via email: [reas.comments@federalreserve.gov](mailto:reas.comments@federalreserve.gov)*

Dear Ms. Misback:

CrossState Credit Union Association (CrossState) appreciates the opportunity to share comments from our members on the proposed rule to update all three components of the interchange fee cap based on data received from the large debit card issuers.

CrossState is a regional trade association that advocates for nearly five hundred credit unions located in the State of New Jersey and Commonwealth of Pennsylvania. Credit unions were formed for the purpose of making credit available to Americans and promoting thrift through a national system of nonprofit, cooperative financial institutions. Credit unions are owned by their members and governed by volunteer boards of directors elected by their membership. Earnings of credit unions are returned to their members through fewer and lower fees, higher yields on savings, and lower loan interest rates.

CrossState strongly opposes the proposed rule due to the negative impact the Durbin Amendment has caused to smaller financial institutions and their members. The Durbin Amendment, implemented in 2011 and 2012 as part of the Dodd-Frank Act, requires financial institutions to provide merchants with two unaffiliated debit networks in certain situations. The stated goal was to lower debit interchange fees for merchants so that those savings would be passed along to consumers.

Many studies produced since that time have shown that the goals of the Durbin Amendment were not achieved. Merchants did not pass along savings to consumers. In fact, financial institutions, even those exempted from the Durbin Amendment, and consumers were negatively impacted by the Durbin Amendment.<sup>1</sup>

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<sup>1</sup> [https://laweconcenter.org/images/articles/icl-durbin\\_update\\_2017\\_final.pdf](https://laweconcenter.org/images/articles/icl-durbin_update_2017_final.pdf)

While credit unions under \$10 billion were exempt from the interchange price caps of the Durbin Amendment, they still suffered decreased revenues due to the implementation of the routing mandates to process transactions over certain networks. The proposed rule will cause the same harms credit unions recognized from the original Durbin Amendment, even with identical exemptions for smaller financial institutions.

The interchange regulations not only set a limit on interchange fees, but also grant merchants the freedom to select their preferred network. They can opt for the most cost-effective solutions, even if it potentially leads to an increase in fraudulent activities. This obligation to allow routing has led to a reduction in income for credit unions across the board.

In addition to decreased revenues, financial institutions bear the cost for fraud that occurs at the merchant locations and over the networks. These costs are significant. Under Regulation E, financial institutions must resolve errors that occur on debit cards by reimbursing their customers for the transactions. In most cases, there are no chargeback rights to the merchants, so the total loss is borne by the financial institution. The financial losses are further intensified by the reduced income that financial institutions acknowledge due to the interchange regulations.

When credit unions suffered decreased interchange revenues from the Durbin Amendment, many needed to adjust pricing of services or eliminate offering some services altogether. These actions harmed those consumers that the Durbin Amendment wanted to assist. Meanwhile, merchant prices remained the same, or increased, and consumers may have recognized rising prices for financial services.

For several years, credit unions and other financial institutions have been advocating for cybersecurity and other network security requirements for merchants to protect consumers' data. In absence of these standards, merchants enjoy reduced processing costs and have limited liability for fraudulent transactions. This spares them from the expense of protecting their systems and attempting to prevent massive data breaches.

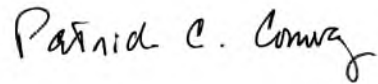
Credit unions are required by regulations to protect the data of their members and the costs of doing so can be difficult for smaller credit unions. These costs are escalating due to staying current on the latest fraud trends and ensuring member data is protected. When a data breach occurs at a merchant and debit card information is accessed, credit unions of all sizes must bear the cost of closing and re-issuing new cards to their members. These losses can be substantial depending on the size of the merchant.

All the extra expenses and reduced revenue imposed on credit unions from the interchange rules have decreased the amount of funds that are available to credit unions to devote to their mission. Credit unions strive to provide greater opportunities for financial education in their communities and ensure that the unbanked and underbanked members of their communities have low-cost solutions to meet their financial needs.

In conclusion, the changes the Federal Reserve has proposed will unfairly impose greater expenses on financial institutions, that ultimately will result in harm to consumers. CrossState respectfully urges the Federal Reserve to reconsider and withdraw its proposed rule for the reasons cited in this letter.

Thank you for the opportunity to comment.

With best regards,

A handwritten signature in black ink that reads "Patrick C. Conway". The signature is written in a cursive style with a large, stylized 'P' and 'C'.

Patrick C. Conway  
President & CEO

cc: CrossState Board  
CrossState Government Relations Committee  
CrossState Regulatory Review Committee