



May 8, 2024

Ann E. Misback
Board of Governors of the Federal Reserve System
Comment Intake – Debit Card Interchange Fees and Routing
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1818, RIN 7100-AG67-Comment Letter Regarding the Debit Card Interchange Fees and Routing Rulemaking

To Whom it May Concern:

This comment letter is submitted on behalf of First Bank & Trust (“FBT” or the “Bank”), a four-billion-dollar bank headquartered in Brookings, SD, and regulated by the Federal Deposit Insurance Corporation (“FDIC”). First Bank & Trust has 22 bank branches located in 17 communities in South Dakota and Minnesota. FBT prides itself on its community presence and offers a variety of deposit and lending products (ex. credit cards) designed to meet the banking needs within the communities it serves.

FBT appreciates having the opportunity to offer feedback on the Federal Reserve’s (the “Board’s”) Debit Card Interchange Fees and Routing Rulemaking. FBT has opined on certain themes below, in response to the Federal Reserve seeking requests for comment.

Themes discussed below include:

- I. Small Issuer Exemption
- II. Consumer Impact
- III. Interchange Fee Impact

Small Issuer Exemption

As a community bank with assets under the \$10B threshold, FBT appreciates and supports the small issuer exemption noted in the proposed rulemaking. The \$10B asset threshold seems appropriate based on the previous data the Board collected on debit card costs decreasing for large debit card issuers. As a small debit card issuer, FBT has not experienced the same decreases in debit card costs. It seems large card issuers with higher debit card income are able to absorb the decrease in interchange income more feasibly than small card issuers.



While FBT supports the \$10B asset threshold, FBT believes the proposed changes to the interchange fee structure may have an inadvertent negative impact, despite the Bank being a small card issuer. Since the implementation of the first Durbin Amendment, numerous studies¹ have shown that "hundreds of thousands of low-income households have chosen (or been forced) to exit the banking system. This can largely be attributed to facing higher costs, experiencing difficulty obtaining credit, and having complications receiving and making payments." Studies² support the notion that the policy inadvertently harmed the most vulnerable consumers and subsequently increased the size of the unbanked population. While the banking industry has made strides in creating low- and no- cost accounts to attract unbanked consumers, the proposed decrease in interchange income may yield a similar outcome as it did with the first Durbin Amendment.

FBT strives to be forward thinking with consumers' wants and needs, and continuously makes updates to our programs to ensure bank services and products meet those needs. Debit card interchange fees help the Bank invest in card advancements and provide cardholders with competitive products. For example, debit card interchange fee income is used to provide cardholders with services like contactless payments, mobile wallet, and digital banking services. These investments have a monetary cost to the Bank and ensure that customers have access to the financial system in today's increasingly digital environment.

Consumer Impact

While the proposed rule is well-intended, it may inadvertently harm consumers financially. Many merchants already pass interchange fees on to consumers in the form of a card service fee or a discount for using cash payments. Under the proposed rule, merchants will benefit from the proposed lower interchange fees, but there is no obligation to pass any savings on to consumers³. Since consumer benefit is a driving force of the proposed rule, the Federal Reserve should consider including a mandate for merchants to pass the savings on to consumers.

Following the first Durbin Amendment, FBT was forced to discontinue the debit card rewards program. This customer benefit disappeared because it became unaffordable for the Bank to continue. FBT was not alone in this regard; many banks discontinued these programs as they became unsustainable alongside the low-fee and free checking offerings. Consumers expect a free checking account, which includes access to funds by using a free debit card.

¹ Mukharlyamov, Vladimir and Sarin, Natasha, "The Impact of the Durbin Amendment on Banks, Merchants, and Consumers" (2019)

² Zywicki, Manne, Morris, "Unreasonable and Disproportionate: How the Durbin Amendment Harms Poorer Americans and Small Businesses" (2017)
Zywicki, Manne, Morris, "Price Controls on Payment Card Interchange Fees: The US Experience" (2014)
Evans, Chang, Joyce, "The Impact of the U.S. Debit-Card Interchange Fee Regulation on Consumer Welfare" (2015)

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



While FBT is a small debit card issuer, if this rulemaking applied to FBT the debit card program could be operating at a loss. Conceivably, banks operating their debit card programs as a loss will forgo investments in the technologies needed to help protect consumers from potential fraud, offer contactless payments, or digital banking. These services currently provide a great benefit to consumers; however, as drafted, the rule may require banks to take measures to recoup lost revenue, either directly or indirectly related to debit card products, and may result in substantial changes to existing debit card programs.

Interchange Fee Impact

FBT is concerned about the costs of operating a debit card program if FBT should experience future reductions in debit card interchange revenue. According to the Federal Reserve, between 2011 and 2021, debit card interchange revenue for exempt debit card issuers fell 13 percent in connection with single-message network transactions.⁴ In 2014, 73.3 percent of surveyed exempt debit card issuers indicated that “debit card interchange fees policy” generally had a negative impact (either “significant” (29.1 percent) or “slight” (44.2 percent)) on their earnings.⁵ In the past 3 ½ years alone, the Bank’s average net interchange rate has experienced a consistent decline. Despite the small bank exemption, the proposed rule will impact the Bank negatively. FBT is concerned about the indirect, downward pressure that may negatively impact the services provided to customers.

As noted throughout this letter, interchange revenue is essential to covering the costs associated with providing affordable and beneficial account options to consumers. Unfortunately, the allowable costs used in the Federal Reserve’s calculation does not include all costs needed to provide a safe and effective debit card program. Excluding a considerable number of costs incurred by FBT impedes the ability to serve customers and communities effectively. Therefore, FBT encourages the Board to rethink the proposed rule and include substantially all costs associated with cardholder servicing and program management. The Board should consider including more representative costs of what banks spend on their debit card program (such as card fraud prevention technology, cardholder dispute resolution, risk mitigation, network fees, core and online banking debit card technology, plastic and digital issuance, and cybersecurity) when calculating interchange fees. All of these “non-covered” costs are necessary in order for all banks, including FBT, to operate as a debit card issuer in a safe and sound manner.

Biannual automatic adjustments to the interchange cap in the future, while using the proposed expense calculation methodology, compounds profitability concerns for smaller issuers like FBT. As history has shown, the market moves toward a level rate regardless of certain “size exemptions”. In other words, FBT and its cardholders will be impacted by the ongoing

⁴ Board of Governors of the Federal Reserve System, “Average Debit Card Interchange Fee by Payment Card Network” (2022), available at <https://www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm>.

⁵ Hester Peirce, Ian Robinson, and Thomas Stratmann, “How Are Small Banks Faring Under Dodd-Frank?,” Mercatus Center Working Paper No. 14-05 (Feb. 2014), at 85, available at https://www.mercatus.org/system/files/Peirce_SmallBankSurvey_v1.pdf.



adjustments regardless of the Federal Reserve's intention. FBT requests the Federal Reserve omit the automatic adjustment from the final rule, if implemented.

Conclusion

FBT appreciates having the opportunity to offer feedback on the Federal Reserve's Debit Card Interchange Fees and Routing Rulemaking. Community banks like FBT play a vital role in the financial health and well-being of local economies and beyond. It is imperative that regulations recognize the value of community banks and support the integrity of community banks, while protecting consumer interests. We urge the Federal Reserve Board to reassess this proposal and conduct more comprehensive research to ensure that any modifications accurately reflect the impact on all financial institutions and consumers they serve. FBT prides itself on its community presence, its work to keep fees reasonable for consumers, and using its income to provide the best quality products and services to its customers.

Sincerely,

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