Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

Comment ID: 160538

From: Oregon Bankers Association, Linda W. Navarro

Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Subject: 1818(AG67) Debit Card Interchange Fees and Routing

Comments:

NONCONFIDENTIAL // EXTERNAL

I'm writing to share our perspective on the Federal Reserve's Proposal (https://www.federalregister.gov/documents/2023/11/14/2023-24034/debit-card-interchange-fees-and-routing) to significantly lower the price cap on debit card interchange fees, as well as implementation of an automatic adjustment to the cap every two years (without public comment). Attached you will find the joint national trades letter submitted to the Fed last month, and OBA will be submitting our comments on the proposal by the February 12, 2024 deadline. In the meantime, I want to make sure you; as our regional Fed CEO; understand why this matters so much to us.

First of all, the direct cuts in checking account revenue for covered banks would be significant. As you may know, the Fed's would revise Regulation II to lower the debit interchange cap from its current rate of 21 cents and .05% of the transaction, plus a one cent fraud adjustment, to 14.4 cents and .04% per transaction and a 1.3 cent fraud prevention adjustment, effective June 30, 2025. For most transactions, this will mean that covered banks will go from earning 22 cents today to 15.7 cents per debit card transactions; a 30% cut. By the Fed's own research, one third of covered banks would not have their debit card costs covered. The result will be more expensive checking accounts because banks will be forced to raise checking and ATM fees, as we saw after the current Regulation II was implemented. In other words, large retailers will benefit at the expense of bank customers.

"Covered banks" are those with assets over $10 billion. However, we expect that the effects of this price cap will cascade down to smaller banks, as has occurred under the current regulation (per-transaction interchange is down 35% post-Durbin Amendment at banks below $10 billion). This new rule will also create complexity for any bank near $10 billion; the first-year Regulation II costs of crossing that threshold is currently $2-4 million. We expect to see that increase by double-digits, potentially encouraging banks of that size to merge with a larger institution rather than remain independent.
We hope you will lend your voice against this sudden and significant proposal, noting the harm I cited above to both bank customers (in the form of higher fees) and community banks that are finding it hard to absorb the constant attack on their business model and ability to retain profitability under the onslaught of new regulations and rules supposedly aimed at larger institutions.

Thanks for hearing me out.

Very best regards,
Linda
Linda W. Navarro
President and CEO
(503) 576-4124 Direct
(503) 581-3522 Office
1149 Court Street NE | Salem, OR 97301
PO Box 13429 | Salem, OR 97309
www.oregonbankers.com