



March 9, 2024

Mary Colleen Daly  
President and Chief Executive Officer  
Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, CA 94105  
(sent via e-mail)

RE: Comments on Regulation II: Debit Card Interchange Fees and Routing [R-1818]

Dear Ms. Daly:

I am writing on behalf of Redwood Credit Union ("RCU"), which serves California's northern Bay Area region. We have over 465,000 Members and \$8.5 billion in assets. RCU appreciates the opportunity to provide comments to the aforementioned proposed regulation.

As you are aware, on October 25th the Federal Reserve proposed changes to debit card fees that could hurt consumers and credit unions like RCU. These changes, if enacted, could reduce income from debit card transactions by an estimated 28% on top of the already 50% cut to interchange when RCU crosses the \$10B threshold. The \$10B threshold has been in place since 2010 with no consideration of inflation impacts. In June 2010 there were 69 institutions considered extremely large due to having \$10B or more in assets, whereas of January 2024 there are now 175 over that threshold. It is important to note the Dodd-Frank Act does not require the Fed to review the cap on debit card interchange.

RCU delivers value through checking and debit cards for over 465,000 Members in the San Francisco and North Bay areas. RCU has one of the nation's highest checking account penetration rates, thanks to our competitive offerings and exceptional service. Our debit cards are a vital part of the checking account experience, generating \$391 million in sales through 13.2 million transactions in 2023. It is critical to note that the credit union business model is different than a typical financial institution. To credit unions like RCU, interchange is not about increasing profits for shareholders. Our debit card transactions generate interchange fees, which we leverage to:

- Fund RCU's Rewards Programs: Provided \$15.8 million back to our Members and their communities in 2023.



- Support free checking account options: We maintain different checking account tiers to support financial inclusion and accessibility for everyone.
- Off-set fraud losses: Merchant breaches happen almost daily, exposing card details and causing extensive losses for RCU and its Members.
- Fund ongoing community philanthropy: Since 2019, debit interchange has enabled RCU to provide \$6.2M of community giveback in the form of nonprofit grants, sponsorships, and other donations.
- Fund Public School programs: RCU supports SchoolsRule programs by donating a portion of interchange from every credit and debit card transaction made by RCU Members in Marin and Sonoma Counties. RCU contributed \$577K to SchoolsRule programs in the North Bay as of 2023 to support every public-school student in those counties.
- International Credit Union Day: Every year on International Credit Union (ICU) Day, which falls on the 3rd Thursday in October, RCU donates a portion of our interchange from every credit or debit card transaction made by Members to selected local nonprofits. Since 2018, RCU has donated a total of \$262,100 through ICU Day giving.
- Fight fraud: Support our on-going investment and development of new technology to fight fraud, provide ease of access to cards, and increase security around mobile wallets, providing peace of mind for our Members.

These crucial benefits are at risk if the proposed changes go through. RCU's calculated cost per debit card transaction is \$0.33 which includes the cost of the debit rewards program. If this proposed change goes into place, program changes will be necessary creating an immediate negative impact to our Membership.

The fees used to sustain debit card systems are charged to merchants and financial institutions, not consumers. These fees have been around for years and are factored into the cost of doing business driving additional sales over the use of cash. Studies show no evidence that lower interchange fees benefit consumers, while large retailers are the main force pushing for this change. This was proven by a Fed study post the first debit interchange enacted in 2011 showing less than 2% of merchants passed the reduced interchange to consumers. While some business owners might think the 3 percent fee for processing cards is a burden, research from the retail tech firm, the IHL Group, shows that cash handling costs many retailers between 4.7 and 15.3 percent.

When analyzing RCU debit interchange, major retailers such as Amazon, Costco, Home Depot, and Wal-Mart are well below the 3% interchange fee (transactional costs) that is touted by studies and merchant associations. In fact, RCU has earned an average of .61%, .23%, .63% and .32% respectively from these major retailers over last 13 months.



The Proposed Changes would:

- Reduce income: The base fee would drop from 21 cents to 14.4 cents, and the variable fee would fall from 5 basis points to 4 basis points.
- Allow Fed to make automatic updates: The fee structure would be adjusted every two years based on Fed data, without public input.
- Have unfavorable impact on our communities: Credit unions like RCU, about to surpass \$10 billion in assets, are expected to see a 63.9% decrease in debit interchange income when factoring the 2011 Dodd-Frank and the proposed Fed changes.

Shifting interchange dollars from non-profit credit unions to for-profit, publicly traded companies will harm our communities as these funds are re-directed to executive bonuses and shareholders. Redwood Credit Union is actively working with Visa, the Credit Union League, and America's Credit Unions to oppose these harmful changes. We believe in protecting the benefits our Members enjoy and ensuring a fair financial system for all.

A handwritten signature in black ink that reads "Brett Martinez".

Brett Martinez  
President & CEO  
Redwood Credit Union

A handwritten signature in black ink that reads "Mishel Kaufman".

Mishel Kaufman  
President  
Redwood Credit Union Community Fund, Inc.