Kenneth A. Witbrodt, Jr.
Chief Executive Officer

Direct Line: (314) 957-4040
kaw@montgomerybank.com

May 6, 2024

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

Re: NPRM on Debit Card Interchange Fees and Routing (Regulation II), Docket No. R-1818

Dear Ms. Misback:

On behalf of Montgomery Bank, I write to express opposition to Regulation II, which proposes to reduce the regulated debit interchange cap. Montgomery Bank respectfully requests that the Federal Reserve withdraw this proposal.

The Federal Reserve must understand that Regulation II will impact every financial institution, including community banks under $10 billion in assets. From 2011-2022, as a result of the Durbin Amendment, per transaction debit interchange for "exempt" community financial institutions fell by 35%. A similar reduction will occur if Regulation II moves forward as proposed. Additional erosion of this foundational, business-to-business fee that supports core banking functions will further stress the community banking model, at a time when banks are being faced with increasing costs of doing business and fraud levels that have never before been seen.

If implemented, Regulation II will result in an immediate reduction of debit interchange revenue for banks by approximately 30%. The ultimate consequence of such a reduction in revenue is to cause consumer harm, putting many banks in the position of no longer being able to cover the costs associated with their debit programs, much less be able to offer affordable full-service checking accounts. A reduction in interchange fees threatens not only the competitiveness of smaller debit card-issuing banks, but also threatens the revenue stream that banks rely on to offer low-cost deposit accounts, such as Bank On accounts, which Montgomery Bank is proud to offer to unbanked consumers in the communities we serve. According to the Cities for Financial Empowerment Fund, the nonprofit that designed and administers the Bank On National Account Standards, Bank On accounts were designed to be economically sustainable for both consumers and banks. Slashing debit interchange rates will upend the economics of these accounts and will lead all banks to reconsider their business and marketing strategies.

While the Durbin amendment, as implemented by Regulation II, applies on paper only to banks with assets greater than $10 billion, the proposed reduction in interchange caps will affect revenue for banks of all sizes, just as the original Durbin Amendment rules have affected all banks. Data shows that the average fee for exempt single-message transactions decreased by 31 percent since 2011. While interchange is a business-to-business fee, it also is the revenue stream that supports the most basic banking services, such as a checking account and a debit card. If fees continue to decline, then all banks will be forced to limit customer services.

As an independently owned community bank, Montgomery Bank invests heavily in payment system technology to provide our customers with safe and secure access to the banking system. The current proposal fails to accurately consider the actual costs that banks incur in order to facilitate such transactions and even implies that the secure payments system should be costless to the consumer. We do not believe that Congress held such intentions when the Durbin amendment was enacted in 2011. Moreover, Regulation II is a hard cost that places the greatest burden on the smallest of financial institutions and that will lead to more industry consolidation.

Bank leadership across the industry has serious concerns that this proposal is not justified based on statutory authority, but instead is based on a flawed and incomplete 2021 data set, which reflects anomalous pandemic-related payment behavior and does not factor in the 2023 changes to debit routing. Likewise, this flawed data set is fed into a new, unproven methodology for calculating the fee cap. As a result, hundreds of mid-size and smaller banks will no longer be able to cover their debit card transaction costs. The proposal also outlines an automatic process for updating the fee caps every two years without being subject to notice and comment, removing this critical issue from public scrutiny and transparent data on an ongoing basis.

Again, it is critical that the Federal Reserve understands Regulation II will impact every financial institution, even those under $10 billion in assets. We urge you to withdraw this proposal until, at a minimum, the Federal Reserve collects and sufficiently analyzes more accurate data to fully gauge the impact of this proposal on both consumers and financial institutions of all sizes.

Thank you for your consideration of this matter.

Sincerely,

Kenneth A. Witbrodt, Jr.
Chief Executive Officer

KAW:kjg