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May 6, 2024

By electronic delivery to: regs.comments@federalreserve.gov

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

RE: Debit Card Interchange Fees and Routing [Docket Number R-1818, RIN 7100-AG67]

Dear Ms. Misback:

Granite State Credit Union appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve (the Board) on the Notice of Proposed Rulemaking regarding changes to Regulation II establishing standards for assessing the amount of interchange fees received by debit card issuers. We strongly oppose the proposed rule changes from the Board regarding interchange fee caps (Regulation II; Docket No. R1818) for debit cards. We believe the implementation of such a cap would have severe implications for the financial stability of credit unions and their ability to provide essential services to their members.

While the current proposal is focused on institutions with over \$10 billion in assets, we believe that the debit interchange cap would impact organizations of all sizes. The impact ultimately hinders our ability to cover the costs associated with providing secure and efficient electronic payment services - which are also mandated. Larger institutions have more bargaining power with card networks and issuers, which allows them to negotiate higher interchange fees. When the caps for larger institutions are lowered, it creates a new benchmark for negotiation, leading to lower fees for all institutions, including smaller ones like ours.

To offset the loss in revenue, financial institutions may be forced to increase fees for services or impose new fees on consumers. This would disproportionately impact lower-income individuals and families who rely on our credit union for affordable financial services. Extensive changes have already impacted the interchange landscape for credit unions, including the requirement to carry an additional unaffiliated network in addition to VISA or Mastercard (dual rails), which was fully implemented in July of 2023. By being forced to engage with additional networks, which typically already have a reduced interchange rate, costs to the credit union increase for the engagement itself and for the continued due diligence required to ensure the networks provide secure services. The full impact to interchange income has not yet been realized by the industry due to this requirement. Additionally, credit unions face other challenges in this landscape, such as increased fraud costs and monitoring requirements.

As a credit union committed to serving our members and fostering financial well-being within our community, we understand the importance of a fair and competitive financial services landscape. Credit Unions, unlike larger financial institutions, operate on a not-for-profit basis and focus on returning value to their members rather than maximizing shareholder profits. Additional changes to debit interchange fee caps would undermine this fundamental principle by limiting the revenue credit unions generate from debit card transactions, making it more challenging for us to invest in member services, technology, and community outreach initiatives. Directly, this would impact our ability to serve our 38,000 plus member checking accounts with affordable and competitive products.

We respectfully urge the Board to reconsider the proposed debit interchange fee cap and engage in a thorough consultation process with credit unions to better understand the potential consequences of such a regulation. We believe that a collaborative approach will lead to policies that balance the interests of financial institutions, consumers, and the broader economy.

Thank you for your time and consideration of our concerns. We appreciate the Board's dedication to maintaining a robust and competitive financial system, and we look forward to the opportunity to contribute to a regulatory framework that supports the continued success of credit unions and the communities they serve.

Sincerely,

Bill House
VP - Technology
Granite State Credit Union