

May 8, 2024

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

Via electronic mail: regs.comments@federalreserve.gov

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

Dear Ms. Misback,

Thank you for the opportunity to comment on the Federal Reserve's proposal to adjust provisions located within the Durbin Amendment with regards to Debit Card Interchange Fees and Routing for Regulation II covered institutions (NPRM). While currently a non-covered institution, Chelsea Groton Bank is nonetheless affected by changes in debit card regulations, either directly or indirectly through other market forces. Debit card interchange is a vital component for community banks to ensure our ability to offer low-cost products to our customers. Disruption in the interchange ecosystem, despite being directed towards larger, covered institutions, will have trickle-down effects on smaller, community banks and their customers.

Chelsea Groton Bank is mutually owned and operated community bank located in southeastern Connecticut. Having been in operation since 1854 we proudly serve members of our communities, many of which are of a low-moderate income as well as many local small businesses. Our team of approximately 220 employees work closely in our community and offer products and services which meet their needs. We have made comparably sizable investments in technology in recent years offering our customers technologies which exceed many of our counterparts – both larger and of similar size.

Despite the difference in size and scale between ourselves and covered institutions, what affects one group invariably affects the other. These changes will certainly affect the most vulnerable component of banking: its customers. The data has led your review to the understanding that most covered institutions will reprice their existing or implement new higher-fee products as a direct result of the proposed rule change to recoup lost income. The intent of this rulemaking appears to be to replace this expected increase in direct-to-consumer fees with savings from merchants in terms of lower prices or improved services. However, also according to your data,

no measurable benefit was found as a result of the initial rulemaking in the short term and only some evidence prices may have been lowered a portion of the savings in the long term. This coupled with concurrent proposals to limit other income avenues for financial institutions while increasing oversight and security will only exacerbate these effects. It would be difficult to explain to the everyday consumer they will almost certainly incur more fees from their trusted financial partner as a result of this rulemaking while leaving only the possibility that merchants may lower their prices a small portion in the long term, if at all.

Furthermore, the practice of placing cost adjustments on autopilot will bypass the opportunity, as provided by the Administrative Procedure Act, for public comment. This precedent would be a slippery slope for rulemaking as it is imperative that changes are allowed to be considered from multiple points of view to ensure all of those which will be affected – directly or indirectly, are spoken for. This approach would not allow for changes in the marketplace, or the impacts of this rulemaking to be taken into account in future adjustments short of review of reports.

In assessing the target cost recovery measure, many real components of debit card issuance expense appear may have been bypassed or overlooked. There are many facets to debit card issuance beyond the processing of transactions and loss due to fraud. These include, but are not limited to, card production, account setup expenses, card network fees, and fraud prevention related expenses among others. One component whose impact is yet to be determined is the recent amendment to Regulation II regarding dual network routing for card-not-present transactions. Having just gone into effect less than one year ago it cannot be known how this will affect transaction processing costs and lead to a further retraction of interchange on a large scale. Even prior to this recent rule we have seen networks adjusting the amount of interchange received as part of these transactions despite being a non-covered institution.

Whether we like to admit it or not, the investments in technology and security made by the largest institutions positively affect smaller financial institutions. These investments, specifically those in the card space, are likely funded by the interchange received from transaction processing. These include transaction scoring models, card security offerings, and other fraud prevention tools. This level of sophistication cannot be developed and funded by smaller financial institutions. There is a real possibility that funding for these tools is reduced as a result of this rulemaking thus directly affecting all institutions' ability to effectively fight changes in the fraud space. With the upcoming proliferation of AI-based fraud, advances in this space will need to continue to protect us all from this looming threat.

While we understand the reasoning behind the NPRM we strongly urge you to withdraw this proposal for additional time to conduct the necessary research into how adjustments to this rule will affect all of those involved including smaller financial institutions. We implore you to consider the complete impact on the everyday consumer who will be most negatively impacted by this rulemaking. Given there is little to no evidence presented which points to the customer as having been positively impacted by the initial rulemaking it only stands to reason further similar rulemaking will only cause further harm. This harm would be felt most by those most in need.

Sincerely,

A handwritten signature in cursive script, appearing to read "William G. Mundell".

William G. Mundell
First Vice President
Digital Services
Chelsea Groton Bank