GENISYS
CREDIT UNION
Where you come first.

April 30, 2024

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

RE: Notice of Proposed Rulemaking on Regulation II; Docket No. R-1818, RI 7100-AG67

Dear Ms. Misback:

I am writing on behalf of Genisys Credit Union to comment on the Notice of Proposed Rulemaking to amend Regulation II ("NPRM") issued by the Board of Governors of the Federal Reserve System ("Board"). The Board should not amend Regulation II as proposed in the NPRM because it will have a negative effect on all financial institutions and consumers.

Genisys Credit Union ("Genisys") is a not-for-profit, member-owned financial institution that has been committed to helping its members financially since 1936. Based out of Auburn Hills, MI, the Credit Union has over 271,000 members and 32 branch locations. With a highly competitive suite of products such as a High Yield Checking Account and a Youth Savings Account, as well as loan options for small to mid-sized businesses, Genisys specializes in providing consumer and business financial solutions through its branches, a multi-channel contact center, and a variety of mobile and online banking services. We are also proud to be committed to the community by annually volunteering over 5,000 hours and partnering on over 1,000 community events.

We are submitting these comments to the Board to make it aware of the harm that Regulation II has caused Genisys and all Credit Unions. By implementing this NPRM substantial harm will be done to the Credit Union industry as a whole and will impact consumers negatively. Highlighted below in our comments you will notice that our key concern is how this change will force many card issuers to reduce products and services offered to consumers. The decrease in interchange revenue, coupled with ever growing fraud in the industry, will make debit program expenses unmanageable for many institutions. Providing a safe and effective payment tool for cardholders is our main goal. Interchange allows a card issuer to offer the most competitive product, offer rewards, offer free checking accounts, and most importantly, offer best in class security solutions. Reductions in interchange could limit consumer choice and make small issuers less competitive overall. Recent skyrocketing fraud has created additional burdens on overall debit program costs.

The Board proposes to decrease the interchange fee cap under Regulation II by approximately 30%. We know from experience the $10 billion exemption still had a broad impact across the industry and the proposal will worsen Genisys's financial position and harm our members, comparable to our experience following the introduction of Regulation II in 2011.

After the 2011 reduction for issuers over $10 billion, our Credit Union felt an immediate direct interchange impact of 3.68% and in subsequent years this interchange reduced even further. Today our interchange earned per transaction is down 8.51% from the pre Regulation II timeframe. This reduction in interchange isn't a stand alone event, as it was coupled with changes in merchant routing to PIN networks, changes in merchant routing for recurring biller transactions, and rampant increases in fraud losses. In the years of 2021-2023 our **fraud losses increased at 103%** over the prior three year period and resulted in a loss to the credit union of $2.4 million.

Much of the impact of Regulation II was felt because large merchants with leverage in the market were able to negotiate below-the-cap interchange rates from networks for all transactions, impacting all issuers, not just those above the cap. Genisys realized a reduction in interchange from 2011 to 2023, directly tied to the introduction of the interchange fee cap and Regulation II in 2011, of $15.8 million dollars. As a result, Genisys had to take action to compensate for the effect of Regulation II. Genisys was forced to carefully consider how our debit card and checking programs would evolve once Regulation II was implemented. In the subsequent years, we determined we were not able to offer points on the ever growing POS/PIN transactions that merchants began forcing cardholders to use. Cardholders were subsequently prevented from earning as many points as they previously could have in the program.

As Governor Bowman has cautioned, finalizing the NPRM will harm us and other exempt financial institutions even though it does not directly target our business. As a result, we will have to take action to further mitigate the detrimental effect on Genisys and our members. Today, Genisys offers a Debit Rewards program that would be unable to survive the proposed change. The annual cost of this program, which provides our members with significant value, may not be manageable at the new interchange rate. Genisys offers a High Yield Checking product, Genius Checking. The high interest rate provided by this product could be in jeopardy based on revenue decline. Genisys may also have to review our current eligibility standards for free checking account products and make adjustments.

Finally, the NPRM comes at a time when Genisys and the industry more generally are still trying to adjust to the most recent amendment to Regulation II, which went into effect on July 1, 2023. That amendment did not directly affect the interchange fee cap, but it did impose additional routing restrictions on debit card issuers, including institutions such as ours, that are supposedly exempt from the interchange fee cap. As the Board's own data shows, average interchange per exempt debit transaction is much lower for single-message networks than for dual-message networks. The most recent amendment forced us to enable a PINless single-message network for ecommerce transactions, reducing our revenue.

We expect that requirements for two unaffiliated networks to be enabled for all types of transactions will further compress the interchange potential on the debit program. At the same time we're seeing increasing fraud exposure from e-commerce transactions that issuers are liable for along with every growing Regulation E liability for card transactions and products that use cards such as Zelle and Cash App. Allowing merchants to select routing could ultimately allow a merchant to select the method that protects them the most from fraudulent liability while burdening the issuer the most. This unfair playing field puts an undue burden for fraud on card issuers and card processors with a less than fair share of liability going to merchants, who subsequently have all of the choices. This uneven market dynamic will ultimately harm consumers as debit card issuers change programs to offset real fraud losses and fraud mitigation costs.

Merchant selection for all transaction types will allow a merchant to strike a deal with a regional routing network and force transactions down that specific channel, regardless of issuer or cardholder impact. That will further decrease interchange paid to debit card issuers and will then result in a decrease in revenue.

Although the effects of the July 1, 2023 amendments are still being implemented by acquirers, we expect it will reduce our revenue and we urge the Board to pause implementation of the pending proposal to ensure small financial institutions are not disproportionately harmed. Additionally, PINless networks do not have the security features of other networks, and therefore we are also likely to face increased costs from fraud losses. If the Board also finalizes the NPRM, it will negatively impact our financial institution and customers, which may imperil access to basic financial services and drive further consolidation in the industry. None of these predictable outcomes will benefit consumers or promote the safety and soundness of our financial system.

If you have any questions regarding our comments, please contact the undersigned at 248-322-9800.

Sincerely,

Jackie Buchanan

Jackie Buchanan
President & CEO
Genisys Credit Union