



May 9, 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:

North Shore Bank appreciates the opportunity to comment on the Notice of Proposed Rulemaking to amend Regulation II issued by the Board of Governors of the Federal Reserve System ("Board"). The Federal Reserve proposal to lower the cap on debit card interchange fees, under Regulation II, will have a negative effect on all financial institutions and consumers, including North Shore Bank.

North Shore Bank is a \$2.5 billion bank serving eastern Wisconsin and northern Illinois communities. We offer traditional banking services with an emphasis on consumer deposit, consumer mortgage and multi-family housing financing, and indirect RV and boat lending. Our deposit customers primarily live in the communities where we have branch locations and our focus is to provide products, services, and technology solutions that empower our customers to be financially successful and manage their finances in the way that best suits their life.

While the Durbin amendment as implemented by Regulation II, applies on paper only to banks with assets greater than \$10 billion, the proposed reduction (approximately 30%) in interchange caps will affect revenue for banks of all sizes just as the original rules have done. Based on our firsthand experience following the introduction of Regulation II, we can attest that the \$10 billion exemption is meaningless. This proposal will indeed harm us and other exempt financial institutions. Our costs to offer debit cards has increased while the interchange income has declined. The interchange income is directly used to offer debit cards plus services for customers to monitor and manage their debit card usage to prevent fraud.

There have been and will continue to be unintended consequences from this continued slashing of interchange fees. Some of these unintended consequences will affect consumers. Many debit card issuers stopped offering their debit rewards program since Regulation II. Many large merchants touted that their savings from paying lower interchange rates would be passed directly on to their customers. That did not happen.

According to the Cities for Financial Empowerment Fund, the nonprofit that designed and administers the BankOn National Account Standards, BankOn accounts were designed to be economically sustainable for both consumers and banks. Slashing debit interchange rates will upend the economics of these accounts and lead banks to reconsider their business and marketing strategies. We believe in the benefits of our Balance Checking (i.e. BankOn) product because of the value it brings to customers who have selected it as their chosen product.

This proposal comes at a time when North Shore Bank and the industry more generally are still adjusting to the 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. Although the full effect of the July 1, 2023, amendment is not fully known, we expect it will negatively impact interchange income.

Finally, this proposal includes an automatic adjustment to the cap every two years based on an incomplete formula that may not account for all the relevant variables. This will result in unfair conclusions and will trickle down to banks not directly subject to the interchange fee cap. The consequences will be felt by all banks and may be significant, impacting customers who rely on a debit card program.

In conclusion, we urge the Board to pause implementation of the pending proposal and complete a quantitative study of its effects on banks under \$10 billion and to ensure they are not disproportionately harmed.

Sincerely,

*Susan T. Doyle*

Susan T. Doyle  
Senior Vice President – Retail Banking  
North Shore Bank

