May 10, 2024

Via: 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

**Docket No. R-1818, RIN 7100-AG67, Debit Card Interchange Fees and Routing**

Dear Secretary Misback:

Cadence Bank ("Cadence" or the "Bank") submits the following comments in response to the proposed rulemaking by the Board of Governors of the Federal Reserve System ("Board") to modify the current Interchange Fee Standards (§ 235.3), which would modify allowable costs tied to processing of debit card transactions (the "Proposal").[1]

This comment letter focuses on two significant flaws in the Proposal, which if finalized would result in negative consequences for Cadence and the customers it serves. First, the Proposal seeks to regulate based upon flawed data, and second, the impact of the reduction in interchange fees will have a disproportionate impact on lower income individuals and households, which Cadence serves throughout its footprint.

## I. About Cadence Bank

Cadence is a Mississippi-chartered bank with headquarters in Tupelo, Mississippi and Houston, Texas. Cadence operates more than 350 branches located across the South and Texas. A significant proportion of Cadence's business model stems from its community banking activities, in small towns and rural areas across its footprint.

## II. The Proposed Change Relies on Flawed Methodological Assumptions and Data

Cadence believes that effective regulation stems from accurate information, which informs regulatory efforts that benefit consumers and are not detrimental to regulated entities such as Cadence. If implemented, the Proposal would regulate with a broad brush across financial institutions and modify the method for calculating the components of the debit card interchange fee, and thus the overall interchange fee.[2] Even if such change were required, and it is not, the proposed manner and basis for the calculation are fatally flawed.

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[1] Board of Governors of the Federal Reserve System, Notice of Proposed Rulemaking: Debit Card Interchange Fees and Routing, 88 Federal Register 78100, November 14, 2023 (https://www.federalregister.gov/documents/2023/11/14/2023-24034/debit-card-interchange-fees-and-routing).

[2] 88 Fed. Reg. 78105-06, 78108.

CADENCE Bank

The Proposal states that the Board identified the new methodology for calculating the components of the interchange fee based on several years of survey data (the "Debit Card Issuer Survey"), from a group of entities that voluntarily responded.[3] At the time the Board first conducted the Debit Card Issuer Survey, the respondents who voluntarily provided information covered only 57% of total debit card transactions by volume, or 60% by transaction value.[4] While the Board has continued to conduct the Debit Card Issuer Survey on a biannual basis since 2009, that survey has not become mandatory, nor does the Proposal provide any information about the changes or stability of the actual respondents over time. Indeed, the Proposal states that the data collected from "large debit card issuers" show "significant" changes in the costs incurred by this segment of the market,[5] without providing any information regarding what share of respondents qualified as "large debit card issuers" at any time during the years over which the Board collected this data. The Proposal also fails to identify whether there have been changes in the size, geography, or customer populations of the institutions voluntarily responding over time, or even any information about the approximately 40% of the regulated population which did not provide voluntary responses. It may well be that a material proportion of the non-responding entities were small or mid-sized banks, which might have reported significantly higher costs.

Nor does the Board's Proposal provide data regarding how, either on a relative basis or fixed in comparison to the "large" issuers it identified, costs changed over this period for other segments of the market. The closest the Proposal reaches to addressing market segments other than "large debit card issuers" is to identify the range of costs ($0.03 - $0.66), that costs for "a considerable majority" were "below" $0.21, but that a "set" of institutions reported costs "significantly" above $0.21.[6] Despite acknowledging a wide range of cost differences for processing debit card transactions, the Proposal does not address why this change is appropriate for either those entities with either significantly higher, or significantly lower processing costs than the $0.21 identified in the Proposal as the new base component fee.

This segment of data is an insufficient and unreliable basis on which to make regulatory changes to the current Debit Card Interchange Fees.[7]

[3] *See, e.g.*, 88 Fed. Reg. at 78104 n.27 (acknowledging survey participation was voluntary).
[4] 88 Fed. Reg. at 78104 n.27.
[5] 88 Fed. Reg. at 78100.
[6] Note that the Proposal does not identify whether this "considerable majority" incurred costs anywhere near either the mean or median for these transaction costs, even among the self-reporting group.
[7] The Proposal also seeks to implement an auto-update to the costs calculations based on these faulty data, *without* the opportunity for the regulated community to comment, provide additional information, or indeed, for the Board to grapple with any future technological changes that impact debit card processing. 88 Fed. Reg. at 78105-06. This aspect would compound the errors of the Proposal.

## III. The Proposal Would Result in Higher Account Fees, Which Disproportionately Impact Lower-Income Households, and Would Harm a Segment of Cadence's Customers

The Electronic Fund Transfer Act ("EFTA") states that any interchange fee on a debit card transaction "shall be reasonable and proportional."[8] It does not require institutions to process such transactions at a loss. The reality of the Proposal is that if Cadence (or any other institution) has actual costs for processing debit card transactions that exceed the amounts set by the Proposal's flawed methodology, costs for deposit accounts and other banking services will have to increase to offset those differences. Costs for processing debit card transactions include those needed to help protect Cadence and its customers against fraud, which is at unprecedented levels in the industry currently. The Proposal does not address how or why such fees for the debit card interchange system should be borne by consumers rather than other parties in the actual transaction chain, including the merchant.

A significant portion of Cadence's customers are community bank customers. And Cadence operates branches throughout its footprint that service, and seek to service lower income areas and customers. Any regulatory activity that increases the costs of providing banking services to customers presents a harm to them, and the Proposal has not addressed such impacts. Cadence believes that the Board should reconsider the Proposal to consider and account for the regulatory impact on the lower income customer base in particular.

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Cadence Bank appreciates the opportunity to comment on the Proposal, as well as the Board's careful consideration of the flaws in the Proposal described above.

Sincerely,

Ty Lambert
Senior Executive Vice President &
Chief Risk Officer

[8] 88 Fed. Reg. at 78102, *citing* EFTA section 920(a)(2); 15 U.S.C. §1693 *et. seq.*