May 10, 2024

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

Re: Docket No. R-1818, RIN 7100-AG67

Dear Respected Members:

Please accept this letter in response to the notice of proposed rulemaking (NPRM) by the Federal Reserve Board of Governors (the Board) to update all three components of the interchange fee cap on debit card transactions, initially lowering the rate.

Tinker Federal Credit Union (TFCU) is a not-for-profit, member-owned financial cooperative headquartered in Oklahoma City with 32 branches throughout the state of Oklahoma. We are Oklahoma's largest credit union, with more than 460,000 members and $6 billion in assets.

Credit unions like TFCU, and the members that we serve, are already feeling the stress of an unstable economy, and proposals like this one only make it harder for us to continue to offer free or low-cost products and accounts.

While the rule as proposed will only apply to financial institutions with more than $10 billion in assets, it will undoubtedly impose an undue burden on our credit union, thus impacting our members. Credit unions do not provide banking services in a vacuum but operate in a competitive environment. Should the cap be lowered, all institutions, regardless of asset size, including ours, will be forced to comply to due to market dynamics. In fact, the Federal Reserve's own data indicates that even smaller issuers were negatively impacted when passage of the Durbin Amendment in the Dodd-Frank Act capped interchange rates in 2010. Large issuers have scale on their side in negotiating better rates; this rule would place small issuers at a competitive disadvantage due to smaller transaction volumes. Exemptions, whether explicit or not, do not exist in the financial services marketplace.

Further, while the intention of the Durbin Amendment was to reduce consumer prices by regulating debit card interchange fees, it has proven to be ineffective. Studies have found that 98% of savings were never passed on to consumers and 20% of merchants increased costs following implementation. All the while, the availability of free and low-cost accounts declined, and revenue has shrunk for credit unions by 30%. Thousands of credit unions have closed their doors.

Should credit unions be forced to lower their interchange rates, they may be forced to pass the costs on to consumers to operate debit card programs or abandon them altogether. This could result in those of modest to moderate means that are now being served by credit unions being forced to alternative, uninsured, unregulated businesses. Alternatively, it could lead to forced consolidation in the industry, leaving only mega-banks to serve all consumers, no matter their need, to the benefit of shareholders.

The economic implications to the market could be broad should this proposal be finalized.

Federal Reserve Board Governor Michelle W. Bowman's thoughtful statement preceding the vote to issue the proposal for comment in October of 2023 accurately captures this sentiment:

"While the proposal suggests that it could result in benefits to consumers, I am concerned that the costs for consumers – through the form of increased costs for banking products and services – will be real, while the benefits to consumers – such as lower prices at merchants – may not be realized."

Governor Bowman further underscored:

"While banks charging fees for services has been criticized by some regulators, in many instances these fees support a bank's ability to offer low-cost or no-cost banking products or services to customers. It is difficult to predict the impact of this rule on bank product offerings, but one consequence may be that banks discontinue their lowest-margin products, including options designed to increase financial inclusion and access for low- and moderate-income individuals and families."

The consumer has paid the price – and they will continue to do so.

In 2011, following the initial proposed rulemaking from the Federal Reserve to implement Regulation II after the passage of the Dodd-Frank Act, TFCU advocated for the Board to go back to the drawing board to include more of the costs that are associated with providing debit card programs - costs that were disregarded when Regulation II went into effect and that the Board continues to disregard in this notice of proposed rulemaking.

Our position remains the same today. Setting interchange rates is a challenging proposition that should consider the benefits and costs to both issuers and merchants in order to avoid cost-shifting and unintended market dynamics. The current Board proposal considers only three elements of interchange: authorization, settlement and clearing costs. By limiting the calculation of interchange to these elements, the Board fails to consider the additional operating costs that allow a debit card transaction to be completed.

TFCU believes the following costs should also be reviewed and weighed in defining and setting the interchange rate:

- Fraud detection and monitoring
- Compliance
- Technology
- Cybersecurity insurance
- Payments infrastructure and fees
- Overhead and personnel
- Plastics
- Issuance
- Prevention and losses
- Chargebacks, disputes and arbitration

Allowing a credit union to recover only the authorization, settlement and clearing costs only covers a portion of the costs that go into the electronic debit card transaction. When considering all of these costs, TFCU pays more in expenses than we recover in interchange fees on debit card transactions.

In closing, the Board has intentionally left the debit interchange rate cap in place since the implementation of Regulation II more than a decade ago. The timing of this current proposal is ill-advised given the economic volatility present in the market today. We urge you to proceed with extreme caution, weighing carefully the intended and unintended consequences, before issuing a final rule.

Thank you for the opportunity to provide comment. We are grateful for your consideration.

Respectfully,

Dave Willis
President and CEO