



May 10, 2024

Filed via: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Anne E. Misback, Secretary,  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551

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

Dear Secretary, Misback:

On behalf of Envisant, we would like to thank the Board of Governors of the Federal Reserve System (Board) for this opportunity to comment on its notice of proposed rulemaking to amend Regulation II to adjust the interchange fees a covered debit card issuer may collect to cover the cost incurred by the issuer. We are the processing partner for 393 credit unions across the United States with over 250,000 accounts, and also provide an agent credit card program for 210 credit unions across the United States.

Regulation II required the Board to establish standards to determine whether the amount of any interchange fee received by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the debit card transaction. The Board has accomplished this by surveying covered issuers on a biennial basis to collect data regarding the cost incurred in connection with debit card transactions performed since the effective date of the Regulation in 2011. According to the Board's data, the Board has determined that covered debit card issuers' costs have decreased but provides vague information to support this finding. As a result of the "significant decline in the allowable costs incurred by covered issuers since 2009, the Board believes that the current interchange fee standards in §235.3 may no longer be effective for assessing whether, for a debit card transaction subject to the interchange fee standards, the amount of any interchange fee received or charged by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Further, the Board believes that the current fraud-prevention adjustment may not reflect an amount that is reasonably necessary to make allowance for costs incurred by the debit card issuer in preventing fraud in relation to debit card transactions involving that issuer." Based on this finding, the Board is proposing to reduce the amount of all three components of the interchange fee that may be collected by a covered debit card issuer.

Envisant strongly opposes the Board's proposal to amend Regulation II by reducing the three components of the interchange fee cap and making updates to all three components of the interchange fee cap every other year based on data reported to the Board by large debit card issuers. The data presented by the Board does not consider the true cost incurred by all debit card issuers and will in turn, cause many to exit the marketplace leaving consumers without options to access their funds via a plastic card access device in a card heavy payment environment.

Envisant urges the Board to reevaluate its data to ensure it provides the total cost perspective an issuer faces when offering a debit card product. It is imperative to also collect cost data for, non-sufficient funds handling, non-sufficient funds losses, international transaction fraud, dispute handling and management, debit program compliance, other transaction-monitoring and evaluation, other network fees not currently included, maintaining a debit card relationship with the cardholder, cardholder rewards, cardholder inquiries, and research and development. These additional costs which seem to have been overlooked by the Board's assessment data, create a significant expense for debit card issuers. In addition, the Board must collect data from all covered debit card issuers to realize the full cost to administer a debit program, rather than only focusing on the very largest debit card issuers.

The Board also seemed to ignore how merchants reacted in response to the debit card interchange fee cap upon enactment of Regulation II in 2011. Rather than reduce costs for consumers paying with their debit cards at merchant locations, costs remained the same, or in some cases, prices went up. The same merchants praising the debit card interchange fee cap did not make good on their word to reduce prices and according to a merchant study conducted by the Federal Reserve Bank of Richmond and Javelin Strategy & Research, some merchants increased prices.<sup>1</sup> The interchange fees paid by merchants is a small amount per transaction compared to the benefits received. Merchants enjoy the ability to handle less currency which contributes to a safer environment for their businesses and employees. In addition, the ability to accept a debit card, thanks to the card issuer, contributes to increased sales.

The Board is required to consider the impact its proposal to reduce the debit card interchange fee cap will have on consumers. Illinois credit unions have indicated they will make modifications to their card programs if they are unable to generate enough funds to cover the costs. This will have a negative impact on consumers, especially those in low to moderate income communities who rely on credit union debit card programs. In addition, a Government Accountability Office (GAO) study found that the debit card interchange fee limits imposed by Regulation II have been associated with increased costs for checking accounts and a reduction in interest rates.<sup>2</sup>

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<sup>1</sup> The Impact of the Durbin Amendment on Merchants: A Survey Study, available at [The Impact of the Durbin Amendment on Merchants: A Survey Study \(richmondfed.org\)](https://www.richmondfed.org)

<sup>2</sup> GAO-22-104468 (February 2022), available at <https://www.gao.gov/assets/gao-22-104468.pdf>

The Board's proposed changes to Regulation II fails to recognize the true cost of fraud on debit card issuers. The size of the financial institution determines its ability to prevent and mitigate fraud losses. For smaller covered credit union issuers, it is difficult to absorb fraud losses while maintaining enough margin to cover the cost of offering a debit card program. The Board has failed to consider the fraud losses resulting from foreign transactions using stolen U.S. debit cards. An issuer's intention to serve international markets is irrelevant because debit cards stolen from a domestic data breach are often used in foreign countries.

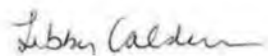
The proposed changes to the debit card fee cap will impact all debit card issuers, even those considered "exempt." The Board's own data along with research examining the initial effects of the 2011 fee cap provided evidence that even smaller, exempt issuers were negatively impacted when debit interchange rates were reduced for larger issuers. The competition between exempt issuers and large covered issuers creates a disadvantage for exempt issuers based on a lack of bargaining power for debit card market share.

Credit unions are member owned not-for-profit financial cooperatives with a primary mission to provide access to financial products and services for their members. The mission of the entire credit union industry is centered around people helping people and has never been about finding ways to increase profit, but about making sure they have the resources necessary to operate and serve members. The revenue generated from interchange fees not only helps to support the credit union's ability to offer a debit card product but is often used to reinvest in the communities they serve. A reduction in interchange fee revenue will likely cause credit unions to eliminate debit card programs or be pressured to merge, leaving consumers with less options for the financial services they desperately need.

Envisant joins its credit union industry colleagues in urging the Board to withdrawal the proposed rule until it evaluates data concerning 2022 changes to CNP routing rules, includes all relevant costs in its calculation of the fee cap, and acknowledges the impact the proposal will likely have on exempt issuers, including many small credit unions severing low income and rural populations.

Thank you for the opportunity to comment on this matter. If you have any questions, please do not hesitate to contact me at 630-983-3484.

Sincerely,



Libby Calderone  
President/COO - Envisant