SouthState

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Winter Haven, Florida 33880

May 12, 2024

VIA EMAIL

The Board of Governors of the
Federal Reserve Board
Regs.comments@federalreserve.gov

RE: Notice of Proposed Rulemaking to Lower the Debit Interchange Price Cap in Regulation II; Docket No. R–1818, RIN 7100–AG67

Ladies and Gentlemen:

Please accept this letter as comments offered by SouthState Bank, National Association (the "Bank"), to the Notice of Proposed Rulemaking to Lower the Debit Interchange Price Cap in Regulation II; Docket No. R–1818, RIN 7100–AG67 (the "NPRM"). For the reasons herein, we respectfully request the Board withdraw this proposal immediately, conduct research to update its data, and not re-propose further rulemaking in this area until it has completed significant additional research that calculates costs to consumers and reflects the real-world experience of covered financial institutions.

The Bank is a national banking association headquartered in Winter Haven, Florida, which offers a wide range of banking services and products to our retail, small business, and commercial customers through our Bank branches, ATMs and online banking platforms in a six (6) state footprint in Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia. These financial products and services include retail and commercial deposit services, including checking accounts, savings and time deposits of various types, retail, mortgage and commercial loan services, payments and treasury management services, and wealth, investment advisory and retail brokerage services. At March 31, 2024, the Bank had approximately $45.1 billion in assets and over 5,000 employees.

We also operate a correspondent banking and capital markets division within the Bank, located in Atlanta, Georgia, Memphis, Tennessee, Walnut Creek, California, and Birmingham, Alabama. The Bank also provides factoring, invoicing, collection, and accounts receivable management services to companies nationwide through its Corporate Billing division headquartered in Decatur, Alabama.

The Bank has a diverse demand deposit offering comprised of commercial, small business and consumer demand deposit accounts, including a consumer checking account with no overdraft fees and low maintenance charges. We have over 540,000 demand deposit accounts that have at least one debit card associated with the account, over 90% of which are consumer accounts. We also offer down payment assistance programs and other products geared toward communities that are traditionally underserved. Finally, we have a strategic investment plan to offer expand product and service offerings to unbanked or underbanked consumers in underserved markets throughout our six-branch footprint.

While the Bank supports the efforts of the Board of Governors of the Federal Reserve (the "Board") to modernize applicable banking regulations given the rapid change in technology and digital offerings of financial institutions, we believe the proposed changes in Regulation II to reduce the debit interchange fee do not met those goals. Among other concerns, we note the below concerns are particularly important to the operations, property, and financial conditions of the Bank.

First, debit card interchange fees support affordable checking accounts, allowing financial institutions, such as the Bank, to offer deposit accounts with limited or no fees. To offer deposit accounts, the Bank incurs certain fixed, unavoidable costs, including, among others, (i) the costs of establishing and maintaining the accounts, (ii) non-sufficient funds losses, (iii) statement production and delivery costs, (vi) transaction monitoring costs, (v) and customer inquiry costs. When a customer uses a debit card to purchase goods or services, the merchant pays a small fee to the cardholder's bank. This reimbursement helps to cover the fixed costs of issuer banks, managing the technology, implementing fraud prevention measures, and transferring money from one point to another. The effect of the proposal is reducing the fee, generally from $0.26-$0.27 per $100 spent to $0.184-$0.193 per $100 spent, that the merchant pays to the customer's bank.[1]

Specifically, if the rule is implemented as proposed, the direct loss in income that the Bank will experience is significant. Assuming a January 1, 2025, effective date for the Proposal, we anticipate that the Bank's income from deposits will decrease by more than $6.4 million in 2025 and by more than $13.8 million in 2026. The Bank will have to raise revenue through other channels to offset the loss directly resulting from the NPRM, including possibly increasing the fees we currently charge to customers for existing products and services, decreasing the number of products and services we offer (i.e., eliminating free checking), and imposing stricter underwriting standards for loans, the cumulative results of which increase the cost to consumers, decrease the mix of products and services the Bank is able to offer, and decrease the loans the Bank can extend to loan applicants.[2] Increased fees and decreased product and service offerings naturally disproportionately affect lower-income consumers who struggle to meet the more stringent minimum balance requirements or are less able to afford higher fees, and who are more likely to be unbanked or underbanked. The impacts of decreased income the Bank will realize are magnified with the loss of revenue from the discontinuance of overdraft fees in the last year.

Second, the cap initially considered fraud losses and provided an eligible covered issuer up to an additional one-cent adjustment to its interchange fee if it met certain fraud-prevention standards. With the advent of more sophisticated debit card fraud schemes through, among other things, artificial intelligence and other digital methods, the cost of fraud detection and prevention tools has increased, not decreased. Those costs need to be recouped in some way, and a reduction in the debit interchange cap makes recouping these increased fraud costs more, instead of less, difficult. If banks are unable to recoup some of these losses through the debit interchange cap, they may be forced to pass a portion of these losses to customers through increased fees.

[1] Anton, Austin. "Regulation II: The Big-Box Boondoggle Paid for by American Consumers." *Bank Policy Institute*, 17 Nov. 2023, bpi.com/regulation-ii-the-big-box-boondoggle-paid-for-by-american-consumers/.

[2] *See generally* Aibangbee, Yany. "Myth vs. Fact: Debit Card Interchange." *Bank Policy Institute*, 19 Mar. 2024, bpi.com/myth-vs-fact-debit-card-interchange/#_ftnref3

In addition to existing fraud costs, the NPRM does not capture new fraud costs. Under new policies in place for both Visa and Mastercard implemented last year, issuers are likely to take on a greater share of fraud losses related to "chargebacks" compared to merchants following the effective date of the proposal. This important development is not reflected in the historical data on which the Board based its proposed fee changes.

Because fraud detection, prevention, and monitoring is one of the biggest challenges facing banks due to rapidly changing technology (including the recent explosion in artificial intelligence) and threat actors all too willing to manipulate any option available to them to the detriment of the banking sector, the economy and the public at large, any proposal that fails to address increased associated fraud costs should be reconsidered.

We appreciate the opportunity to provide our comments and are happy to discuss them more fully or address any questions you may have.

Very truly yours,

Beth S. DeSimone
Senior Executive Vice President,
Chief Risk Officer, and General Counsel