



May 12, 2024

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Attention: Ann E. Misback, Secretary

Dear Members of the Board,

Subject: Comment on Proposed Amendments to Regulation II (Docket No. R-1818; RIN: 7100-AG67)

I am writing on behalf of TwinStar Credit Union in Washington and Northwest Community Credit Union, a division of TwinStar Credit Union in Oregon. Post our legal merger, effective June 12, 2023, we represent a financial institution serving a membership base of almost a quarter-million members and covering both rural and urban communities stretching from as far south as Medford, OR to as far north as Tacoma, WA and stretching from the coastline, Ocean Shores, WA, to inland areas such as Bend, OR. With assets totaling approximately \$4.3 billion and a vision, supported by our community charter to build communities where all feel financially secure and empowered to reach their dreams, we rely heavily upon the interchange revenue our members use in our communities to reinvest in these communities.

We have been closely following the developments of the proposed amendments to Regulation II and would like to express our significant concerns regarding the impacts these changes would have on our members and the communities we serve. As a community based not-for-profit cooperative institution, we incentivize and reward members to use their debit card; not only as a tool for re-investing in the community but also to return value back to our members in the community. In 2023, our members used their debit card almost 50,000,000 times, spending over \$2.3B in our communities.

TwinStar Credit Union returns the value received through the revenue on these transactions in a couple of very distinct ways.

- First and foremost, we donate a penny per transaction to the TwinStar Foundation. This Foundation's purpose is not only to provide financial literacy for youth through the schools in our communities but also to subsidize the free school lunch programs to ensure kids in schools have hungry minds; not go hungry. This program provided almost \$1/2 million dollars towards financial literacy programs and feeding children who cannot afford school lunches last year.
- Second, TwinStar continues to offer Debit Rewards through its Kasasa Checking Account Programs. As of year-end 2023, over 61,000 of our 110,000-plus members who have checking accounts participated in one of our Kasasa Checking Programs – the most popular of which pays a 4.07% APY on members' balances in their Kasasa Cash Checking Account. At a \$1,000 average monthly balance, that returns just over \$40 per member per year per member.



While the above items are ways in which we practice financial advocacy for our members and the communities we serve, it should also be noted that this is after significant reductions in the gross income due to fraud and the operating expenses that support a debit card program.

- In 2023, Debit Card fraud in Washington alone was just shy of \$1,000,000.
- This is not a fully leveraged cost thus does not include the hundreds-of thousands of dollars in FTE *Full-Time Equivalent staffing costs) or the multiple 3rd party systems being used to fight and manage fraud.
- Debit card plastics replacement and postage expense which continues to climb (approaching over \$5.00 per card) for EMV compliant and Dual Interface (Contactless)
- If the member has provisioned their card to a digital wallet (Apple-Pay, Google Pay, etc.) there is an additional provisioning charge of approximately \$0.07 per token provisioned, per device, per member.

We understand the Board’s intention to create a more competitive and transparent debit card market. However, we believe that the proposed regulation may have unintended consequences that could adversely affect:

- Consumers - Debit rewards (such as the Kasasa checking accounts) will likely be impacted. Debit rewards are a variable and voluntary expense to return value back to our members in the community, but if the gross interchange is reduced and fraud or fraud costs and card operating expenses are not also reduced, then it is unfortunately the consumer that will lose.
- Community Giving - Engagement programs like the “penny per transaction” donations would be at risk as that \$0.01 per transaction takes a greater percentage of the net margin that we want to contribute to kids’ programs in public schools in our communities.
- Innovation – A portion of the revenues also go into creating new and innovative programs that consumers and small businesses in our community need. Creating these products and services, partnering with 3rd party providers and bringing those products to market carry significant up-front capital and retained earnings is the primary funding mechanism for creating and delivering these products and services.

The below tables on the following page demonstrate the significant impact this regulation amendment would have on TwinStar Credit Union’s financials if we wanted to maintain the current return to our members and communities through our rewards and giving programs.



Visa FY '23 Data

Full Year 2023 - Current State			
Spend	Interchange	Transactions	Per Trans.
Consumer & Business	\$ 15,150,000	34,840,000	0.43

>\$10B (w/o Reg II rule change)			
Spend	Interchange	Transactions	Per Trans.
Consumer & Business	\$ 15,150,000	63,125,000*	0.24

* **GAP CLOSURE:** For the CU to earn \$15.15M in interchange, an incremental 28,365,000 transactions would be needed annually **OR** an incremental 70,501 active accountholders would need to be added.

>\$10B AND Reg II rule change			
Spend	Interchange	Transactions	Per Trans.
Consumer & Business	\$ 15,150,000	86,571,428*	0.175

* **GAP CLOSURE:** For the CU to earn \$15.15M in interchange, an incremental 51,811,428 transactions would be needed annually **OR** an incremental 128,942 active accountholders would need to be added.

As demonstrated in the second table, the credit union will already see almost approximately a 55% reduction in per transaction revenue that it will be able to return to members and the community. The only way to maintain our revenue stream and thus the return of those funds to members in the communities we serve we would have to see a 50% increase in Debit card activity in the first year and in perpetuity. As the third table demonstrates, the proposed Regulation II amendment currently being considered would be over a 60% reduction in per transaction revenue or would require us to more than double the number of debit card transactions in the first year for us to maintain the current level of return to member or community giving through our debit card programs.

We urge the Board to consider the significant potential negative impacts on:

1. Consumers
2. Small Businesses
3. Communities and their financial well-being
4. Smaller, community based not-for-profit institutions such as TwinStar Credit Union and Northwest Community Credit Union.



Every one of the above segments must be taken into consideration before finalizing the amendments to Regulation II. We are open to engaging in a dialogue to find a balanced approach that ensures the competitiveness of the market while also allowing institutions like ours to continue providing high-quality financial services at an affordable cost by reinvesting in our communities.

Thank you for considering our perspective on this critical issue.

Sincerely,

Jeff Kennedy
Chief Executive Officer
TwinStar Credit Union (WA) and
Northwest Community Credit Union (OR)