



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

Re: Comment Letter – Debit Card Interchange Fees & Routing
Docket No. R-1818

Dear Secretary Misback,

Wright-Patt Credit Union, Inc. is pleased to submit the following comment letter in response to the Board of Governors of the Federal Reserve System’s request for comment on a proposal to: (i) lower the maximum interchange fee that a large debit card issuer can receive for a debit card transaction; and (ii) establish a regular process for updating the maximum amount every other year going forward (collectively the “Proposal”). We appreciate the opportunity to express our concerns regarding the Proposal.

Wright-Patt Credit Union is an Ohio state chartered and federally insured credit union headquartered in Beavercreek, Ohio. We were founded nearly 92 years ago and evolved from a caring group of Wright-Patt Air Force Base workers who established “The Sunshine Fund” by committing to contribute a quarter each payday to help struggling co-workers. Today, Wright-Patt Credit Union has grown to over \$8.5 billion in assets and serves over 500,000 members with member center locations throughout Southwest and Central Ohio. We are a not-for-profit financial cooperative with a mission to help people through life. We are driven by the belief that everyone deserves a caring financial partner who builds hope and improves well-being. We primarily serve individual consumers and smaller businesses.

Wright-Patt Credit Union respectfully opposes the Proposal and we urge you to reject requests to make further changes to Regulation II. The Proposal purports to be based on issuer cost but fails to adequately account for the true cost of offering debit card programs and is being made without adequate consideration for consumer harm. Moreover, we are concerned that the Proposal will have widespread unintended consequences that disproportionately impact smaller sized financial institutions, including credit unions like Wright-Patt Credit Union.

Interchange fees are a key source of revenue needed to support our ability to offer valuable and wanted products and services to our member owners, especially the most vulnerable. Wright-Patt Credit Union is considered a small issuer today, but as a small issuer, we do not exist in a vacuum, and we will likely indirectly face increased fee pressure in operating our debit card program should the Proposal move forward. The Durbin Amendment’s “exemption” of smaller financial institutions has proven to be largely

illusory, as studies continue to demonstrate that regulatory thresholds in the interchange market do not insulate smaller issuers from harm.

Wright-Patt Credit Union remains exempt today, but we are approaching the \$10 billion threshold. Accordingly, we are already actively preparing to address the anticipated loss of interchange revenue associated with our growth. Current estimates suggest that we will experience a \$24 million dollar loss of interchange revenue or a loss of roughly 0.24% of assets on an ongoing annual basis when we cross \$10 billion. If adopted, we estimate the Proposal will result in an additional \$7 million dollar loss of revenue or an additional loss of roughly 0.07% of assets on an ongoing annual basis. These estimates show that the Proposal will further exacerbate an already significant anticipated loss of much needed revenue. In total, we estimate a loss of over \$30 million dollars that today benefits our 500,000 plus members. As a member-owned cooperative, when we earn less it directly impacts our ability to support our members. The current interchange model provides revenue to offer our members industry leading low overdraft protection and non-sufficient fund fees, the ability to open and operate branches in low-income areas, and the ability to provide numerous opportunities for financial education to help our members lead the financial life they want to live, among many other beneficial programs and services.

We are concerned that the true cost and expense to offer debit card services to our members has not been appropriately captured or understood by policymakers. Automatic adjustments will likely continue to reduce interchange rates moving forward without any consideration of cost. Before finalizing any rule, we believe it is incumbent upon the Board to fully understand the intended and unintended consequences of the Proposal.

The cost of debit card programs for issuers includes significant investments in fraud protection and prevention, program compliance, dispute handling and management, transaction monitoring and evaluation, and other operational requirements. Over the course of several years, these costs have grown exponentially for Wright-Patt Credit Union. For example, in our most recent fiscal year, our fraud losses increased by 38%. Fraud losses coupled with the operational expense associated with responding to fraud continue to increase our costs. Moreover, fraud is only one of many expenses incurred by issuers adding to the overall cost of a debit card program. We continue to invest heavily in compliance, technology, and other operational resources associated with our debit card program. We believe the Proposal does not adequately address or share with merchants the true cost of fraud or debit card programs in general.

Credit union members (and in turn merchants) benefit from debit card programs. Debit cards offer convenient and secure access to funds, allowing members to readily make purchases from merchants. Our consumer members experience peace of mind benefiting from zero-liability protections when using their debit cards. The benefits of convenience, security, and peace of mind protection, however, come at a significant expense to the credit union, and interchange revenue is essential to cover the expense.

As a not-for-profit debit card issuer, interchange income is critical to our ability to provide affordable access to vital financial products and services. Reduction in revenue at a time when the cost and expense to run our operations continues to rise poses a significant risk to our ability to meet the growing needs of our membership. Moreover, mitigating the effects of lost revenue comes at a time when economic uncertainty weighs heavily on our members who rely on us for access to affordable financial products and services. We are gravely concerned that the Proposal will impede credit unions ongoing progress to improve broader financial access and availability.

Given that interchange revenue supports our ability to offer debit cards and other valuable services to our members, the Board should consider the broader context, including the following:

- While the Proposal is based on decade old data from large debit card issuers, it does not adequately consider the unique cost structures and operational challenges faced by member-owned institutions like WPCU. Many credit unions would not be able to recover their card program costs, given the amount of investment and ongoing costs required for debit card programs.
- The considerable range of sizes and business models for issuers subject to the interchange fee cap and the competitive disadvantage to smaller sized issuers must be considered. Issuers with the highest transaction volumes, greater negotiating power, and economies of scale can likely absorb the impact of lost revenue easier than other smaller issuers subject to the cap. Operating at a loss is unsustainable for smaller issuers. To compensate, smaller sized issuers may be forced to make difficult decisions related to their products and services.
- Credit unions play a vital role in providing competition, offering consumers more choices for their banking needs at affordable rates to ensure financial stability and well-being. Lower interchange fees could disproportionately affect smaller institutions like credit unions, potentially reducing the competitive landscape in the financial services industry.
- The Proposal aims to lower costs to merchants accepting payments by debit card, but there is no requirement or guarantee that savings will be passed on to consumers and historical data suggests otherwise. Reduced revenue will further stress the credit union, and in turn our member owners, as we rely on interchange revenue to support the vital products and services we provide to our members. The consumer harm should not be overlooked.
- The Board should consider the cumulative effect of regulatory changes and rules. Continued interchange declines are one of many challenges facing credit unions. We believe the Proposal will change the framework of the interchange fee structure which will have a wide-ranging ripple outcome affecting all financial institutions, regardless of size. We believe these changes will adversely impact not only credit union operations, but also members who rely on us for affordable and secure financial services.

Before finalizing any rule, we believe it is incumbent upon policymakers to fully understand the intended and unintended consequences of their decisions. This is particularly important when we are talking about a vital payment tool used by your constituents.

On behalf of Wright-Patt Credit Union, Inc., thank you for the opportunity to provide comments on the Proposed Rule.

Sincerely,



Molly K. Lampe
Chief Legal Officer
Wright-Patt Credit Union, Inc.