



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 RIN 7100-AF, Debit Card Interchange and Routing Comment Letter

Dear Ms. Misback:

On behalf of Vibe Credit Union, I write to you today in strong opposition to the Federal Reserve's proposed changes to Regulation II. We respectfully urge the Board of Governors to reject the proposed changes considering the large unintended consequences of this potential action.

Vibe Credit Union is a \$1.28 billion dollar asset not-for-profit credit union representing over 80,000 members. Based on our asset size we are considered an exempt organization, under \$10 billion in assets, but still strongly believe that the proposed changes to the interchange fee cap would still directly impact our credit union and all of those under the \$10 billion dollar asset threshold.

#### **Revenue Impacts to Exempt Institutions**

Since the implementation of the Durbin Amendment, the amount of interchange income that we receive has been reduced both as a percentage of our payment volume and further decreased considering the impact of inflation adjustments to interchange income. Even though this was not an intended impact of the Amendment we do not operate in a non-competitive closed environment. The data the Board compiled speaks this impact as rates more closely match for non-exempt single message transaction rates. On average, it was shown that interchange average per transaction for exempt issuers was reduced from 27 cents to 24 cents. Inflation adjusted rates would be closer to 42 cents in today's dollars.

#### **Consumers left out of fee reduction**

With the implementation of the Durbin Amendment imposing caps on interchange fees that merchants pay to accept debit card transactions an assumption was made that these savings would be passed to consumers. The impact has been studied and found that very few merchants passed any savings to consumers as part of this regulatory impact<sup>1,2</sup>. Further limiting the interchange fee amounts does little to ensure that consumers receive the benefits of reductions just as we have seen from the first controls implemented. Reductions in interchange income make it more difficult to offer low cost access to banking services. We recommend that the Board carefully consider the probability of unforeseen ripple effects and unintended outcomes that could arise from altering the existing regulatory framework.

### **Technology Investment Impacts**

Reductions in interchange income on debit cards will provide lower capabilities for all credit unions to invest in debit card payment access capabilities harming consumers access to modern, easy to use solutions. The rise of digital payments, the need for immediate card payments, and the always on 24x7 consumer demands related to card payments are supported by interchange income. Reducing that income will create service level barriers that consumers have come to expect in an always on, friction limited payment experience.

### **Fraud Loss Provision**

While the idea of adding a review on a fraud loss provision, looking only at extremely large organizations, is not a full picture of the fraud losses experienced by the industry. This provision should look more broadly at the payment issuer ecosystem to have a more clear understanding of the significant and growing amount of fraud expenses incurred. These losses are a large portion of expense in enabling these payment experiences. These losses experienced by Issuers instead of merchants continue to provide a negative externality to investing in data protection by merchants.

### **Conclusion**

We do not agree with the Board's conclusion that the proposal would not directly indirectly impact exempt issuers. Exempt issuers experience impacts have already been shown to be negatively impacted by Regulation II through reduced average interchange. We believe the Board should withdraw the Proposal.

Thank you,



Jeff Pascoe  
Chief Data and Digital Officer  
Vibe Credit Union

### References:

1. David S. Evans, Howard H. Chang & Steven Joyce, "The Impact of the U.S. Debit Card Interchange Fee Caps on Consumer Welfare: An Event Study Analysis" (Coase-Sandor Institute for Law & Economics Working Paper No. 658, 2013).
2. "The Durbin Amendment: A Short Regulatory History", <https://www.cato.org/regulation/spring-2024/durbin-amendment-short-regulatory-history#not-the-intended-effect>

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