



May 10, 2024

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

Docket No. R-1818, RIN 7100-AG67

Clearview Federal Credit Union appreciates this opportunity to comment on the Federal Reserve Board's (FRB) Proposed Revisions to Regulation II's Interchange Fee Cap. This proposal has wide-reaching implications for all financial institutions and consumers. Smaller institutions are wedged between large financial institutions and merchants in a clumsy tug of war over interchange fees. The perceived benefits for consumers are tenuous.

We understand this proposal intends to benefit consumers by creating a means for less expensive routing of transactions. However, we submit that the proposed rule fails to adequately balance the costs and fraud risk incurred by financial institutions. These costs could affect the fees imposed on consumers to safeguard their money as they use debit cards, digital wallets, and other electronic access methods. The proposed Interchange Fee Cap rule establishes more benefits for merchants while ignoring negative impacts on consumers and financial institutions.

Under the proposed rule, merchants will benefit from decreased fees when accepting card payments from customers. The intended outcome is for merchants to pass that savings on to consumers. However, merchants are not required to reduce the cost of goods and services charged to consumers. Merchants can pocket those savings while consumers continue to pay higher costs, directly or indirectly. Additionally, merchants are now able to contract with individual card networks to lower interchange. These contracts present higher risk to consumers, as many of the networks do not utilize top-quality fraud prevention methods. Consequently, consumers may experience diminishing rewards programs and less fraud protection. In the end, financial institutions will be exposed to increased fraud risk where merchants route transactions to the lowest cost network. This also increases reputation risk because consumers inevitably blame their financial institution when fraud occurs – not realizing that fraud is facilitated by deals that Networks and Merchants make to reduce costs.

Many card issuers are witnessing a shift to card-not-present due largely to network deal-making with large retailers. These agreements result in financial institutions experiencing lost revenue for extended periods while the merchants reap the benefits. This creates competitive pressures and imbalances within the payments system.

The proposed rule includes a few fraud-related costs in the “allowable costs” but fails to include all such costs, and ignores the abundance of resources required to guard against fraudulent transactions. It is challenging to calculate an exact figure for costs attributed to fraud, considering the increased use of card-not-present, digital wallets tied to debit card numbers for online transactions. Additionally, the FRB did not contemplate the costs for credit card transaction monitoring or fraud by other means than debit transactions. Other overlooked costs include lost revenue from replacement card wait-times, fraud loss insurance, and recovery costs.

Covered issuers have greater resources to find the ad valorem component acceptable; but should the definition of covered issuer change – community banks and credit unions will be affected. The impending impacts could result in increased fees for normally free products and services, less attractive rewards programs, reputation risk as consumers look unfavorably upon financial institutions when cards are compromised or fraud transactions post, and higher insurance costs due to increased fraud losses.

The FRB must consider the impact this rule will have on financial institutions who offer card programs and the consumers they serve. Since merchants do not share in the fraud losses but will reap the financial rewards that lower interchange fees provide; it imperative that the FRB allocate risk appropriately. Fraud Prevention standards should be reexamined to ensure that all payments networks provide the same protections. Merchants should share the risk of network compromises and other fraudulent activity. This will guarantee that no matter which networks are used to conduct a transaction, fraud standards are robust and can protect every consumer’s financial well-being.

Finally, there is no rule that governs how merchants must utilize the savings this rule provides. The FRB must either require the merchants to use the savings towards lowering the costs of goods and services, or the merchants must share in all fraud-related costs. The proposed rule will have a dramatic effect on payments and the relationship between consumers, merchants, and financial institutions. As proposed, this rule threatens a negative domino effect on consumers and smaller financial institutions. Consumers will be potentially exposed to greater fraud risk when transactions are conducted through networks with less robust protections and chargeback processes. As financial institutions experience higher costs, plastic card programs may reduce value-added benefits or impose annual or other usage fees. Consequently, this proposal should be withdrawn, given further study, and be completely redrafted in a manner that provides a more appropriate risk allocation.

Respectfully,

Clearview Federal Credit Union