

SENT VIA EMAIL: regs.comments@federalreserve.gov

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: Debit Interchange Fee Cap Docket # R1818 and RIN 7100-AF

Dear Ms. Misback:

On behalf of American Airlines Federal Credit Union (American Airlines Credit Union), I am writing to express my strong concern and opposition to the proposed changes to the Federal Regulation II (Debit Card Interchange Fees and Routing) which would reduce the debit interchange fee cap and automatically adjust the cap moving forward every two years based on issuer-reported data.

American Airlines Credit Union is a federally chartered credit union headquartered in Fort Worth, Texas with approximately \$9 billion in assets. We serve more than 360,000 members in the air transportation industry and their family members. We have been helping our members reach financial wellness for more than eight decades - since 1936. American Airlines Credit Union is pleased to provide our members free checking and savings products, low loan rates – including those for first-time borrowers, free financial education and online tools and resources to assist with financial planning. In addition to these offerings, American Airlines Credit Union has returned more than \$193 million in bonus dividends to our members.

As background, Regulation II and the Durbin Amendment were intended to benefit consumers and only regulated those institutions with \$10 billion assets or more. However, these regulations have presented significant challenges since their inception to our Credit

Union, even though we are less than \$10 billion in assets and should not have been affected by the Durbin Amendment. The cap was advocated for by merchants who wanted to lower the fees they were paying to financial institutions. They claimed that if their costs were reduced, they would be able to pass the savings along to consumers. Unfortunately, while merchants and their shareholders benefitted from these price caps to lower their costs, fraud has continued to increase and merchant cost savings is still not being passed on to consumers.

Conversely, interchange fees assist our Credit Union and other financial institutions by partially defraying costs of fraud and related costs. Interchange fees generate revenue to invest in safeguarding consumer data and enable us to continue to provide card products and no cost financial education programs to our members. Those seeking to reduce interchange further have already benefited from no longer handling large amounts of cash and checks with minimal liability for fraud related expenses.

While we appreciate the Board's attention to the impact of the debit interchange rate on credit unions, we strongly oppose these changes because we believe that this regulation will result in heightened barriers to affordable financial services. The unintended consequences of the debit interchange fee cap will significantly harm our members and negatively impact all smaller debit card issuers.

Implications for Credit Unions Approaching \$10B in Asset Size

The current proposal would lower the maximum debit interchange fee from \$0.24 per transaction to \$0.17 per transaction for large issuers with more than \$10B in assets. In addition, the proposal would automatically adjust the cap moving forward every two years based on selected issuer-reported data.

As our Credit Union is approaching \$10B, the proposed regulated debit interchange would result in a revenue decline of approximately 29%. This reduction will force us to examine various options to mitigate this lost revenue.

While not immediately impacted, exempt interchange rates continue to decline - in part due to the unaffiliated network requirement of Reg II, mandating alternative networks for all ecommerce and card not present (CNP) transactions (PIN Networks with PIN-less transactions). We have witnessed a moderate migration to PIN-less transactions since implementation. These transactions are expected to continue and will result in reducing interchange even further and increasing risk. In addition, automatic adjustments will continue to reduce interchange rates on a biennial basis moving forward contrary to the increasing rate of investments by issuers in people, processes and systems required to innovate, operate in a safe and compliant manner, and reimburse our members for the fraudulent actions of others.

Impact to Our Members

Reduced revenue and increased costs will negatively impact our ability to offer free checking products and debit card services to our members. Costs for debit program compliance, dispute handling and management, establishing and maintaining debit card relations and transaction monitoring continue to rise, and our members – particularly the most vulnerable - may lose access to free checking accounts and other affordable financial products and benefits. These trends mirrored across other community financial institutions will have a detrimental impact to those in a more fragile financial situation, likely resulting in many leaving the traditional banking system.

A November 2023 survey by *GOBankingRates* indicates that nearly half of Americans have \$500 or less in their savings account for an emergency. By offering our members a checking account that does not have a monthly fee, we are saving them money that they can use to either pay off debt or add to savings each month. While \$5 or \$10 a month does not seem significant, it does add up when included with other cost-saving measures and can make a considerable difference in a member's budget.

In addition, card fraud continues to be of significant concern as we diligently protect and reimburse impacted members' fraud losses versus merchants and P2P payment companies who seek to avoid assisting their customers in times of need. Over the last five years, debit card fraud cases have increased by 55% from 13,319 cases in 2019 to 20,655 cases in 2023 – requiring us to hire three full-time employees to assist in managing the workload. Within the last five years, debit card fraud losses have increased by 116%, with an annual loss of \$1.9 million, as of December 31, 2023.

With no federal regulation holding merchants accountable for protecting their customers against fraud or ensuring cost savings are passed along to cardholders, we ask for your help to ensure that merchants and their shareholders are not further benefited by a price cap on interchange. The Fed's assessment does not fully account for all costs that are necessary to operate a safe and secure debit card program.

I urge the Board to strongly consider the changing interchange environment with respect to the rise of card fraud and its associated costs for credit unions. Interchange income barely covers our operational costs. A reduction in the interchange fee cap would mean a reduction in the ability of our Credit Union to invest in technology that allows us to offer better, low-cost financial services to our members.

Final Comments

American Airlines Credit Union strongly opposes any efforts to reduce the interchange fee cap. By decreasing credit union revenue, the Board is standing in the way of our ability to provide safe and secure, free checking products without the revenue to offset our costs. This change coupled with others such as the CFPB proposed rulemaking for NSF/OD

fees and reduction of credit card late fees will impact the overall stability and viability of the financial ecosystem and the role small to midsize financial institutions play.

I urge the Board to withdraw this proposal to carefully consider the impact for all financial institutions given significant disparities in Fed data and to consider the effect such changes would have on credit unions and the communities they serve.

I urge the Board to support common-sense regulations, right-size thresholds, and a reasonable phased mandatory compliance schedule to protect our credit union communities and their access to affordable financial services.

Thank you for your review of my comments. Please feel free to contact me to provide additional information.

Sincerely,



President & CEO
American Airlines Federal Credit Union

cc: America's Credit Unions
Cornerstone Credit Union League
National Credit Union Administration