

Stock Yards

Bank & Trust

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: Notice of proposed rulemaking on Regulation II: Docket No. R-1818, RI 7100-AG67

Dear Ms. Misback:

I am writing you today on behalf of Stock Yards Bank & Trust to comment on the Notice of Proposed Rulemaking to amend Regulation II (“NPRM”) issued by the Board of Governors of the Federal Reserve System (“Board”). The Board should not amend Regulation II as proposed in the NPRM as it will have a negative effect on all financial institutions and consumers.

Stock Yards Bank & Trust was established in 1904 and was formed to finance transactions in the livestock industry. Today, we are a true community bank as we help individuals, families, and businesses with a complete line of financial services with our unique focus on personal banking.

We are submitting comments to the Board to make you aware of the impact the amendments to Regulation II will have on financial institutions like Stock Yards Bank. As an \$8.1 billion bank, we have begun the preliminary research into the impact of crossing the \$10 billion total asset threshold. In this research, we estimate that once we cross the \$10 billion threshold our interchange income will decrease by more than 50%. This reduction will not allow us to cover the cost of offering debit cards to our customers. Our costs with our debit card processors and fraud continue to increase year over year, with an estimated 50% reduction to our interchange income, debit cards will become a loss leader product for us and banks like us. The further reduction of interchange income under the proposed amendment to Regulation II (estimated to be an additional 30% decrease) for banks at or near the \$10 billion threshold will only multiply that loss. Banks at this asset size cannot afford to lose money year over year on a basic financial service such as debit cards and will have no option but to increase account fees or costs elsewhere or reduce functionality, which will have a direct economic impact to the consumer and a distinct competitive disadvantage to community banks.

As we are currently exempt from Regulation II, we also have concerns about the impact to smaller financial institutions. Following implementation of Regulation II, large merchants with significant leverage were able to extract below the cap interchange rates from networks for all transactions irrespective of whether the issuer was exempt from Regulation II or not. We know from experience there was an impact to our interchange income as a non-regulated bank from the introduction of the now current interchange levels in 2011. So even if we stay under the \$10 billion threshold for a few

more years, there will still be direct impact to us as a community bank and to our customers. As Governor Bowman has cautioned, finalizing the NPRM will harm us and other exempt financial institutions even though it does not directly target our business.

Finally, the NPRM comes at a time when Stock Yards Bank & Trust and the industry more generally are still trying to adjust to the most recent amendment to Regulation II, which went into effect on July 1, 2023. The amendment did not directly affect the interchange fee cap, but it did impose additional routing restrictions on debit card issuers, including institutions such as ours, that are actually exempt from the interchange fee cap. As the Board's own data shows, average interchange per exempt debit transaction is much lower for single-message networks than for dual-message networks. The most recent amendment forced us to enable PINless single-message network for ecommerce transactions, reducing our revenue. Although the effects of the July 1, 2023 amendments are still being implemented by acquirers, we expect it will reduce our revenue and as a result we urge the Board to pause implementation of the pending proposal to ensure smaller financial institutions are not disproportionately harmed. Additionally, PINless networks do not have the security features of other networks, and therefore we are also likely to face increased costs from fraud losses to be offset by lower interchange revenue. If the Board also finalizes the NPRM, it will negatively impact our financial institution and customers, which may imperil access to basic financial services and drive further consolidation in the industry. None of these predictable outcomes will benefit consumers or promote the safety and soundness of our financial system.

Stock Yards Bank & Trust urges the Board to reconsider this amendment as it will have an impact on us as both an exempt bank and as we grow past the \$10 billion asset level. Banks such as Stock Yards Bank & Trust will no longer be able to offer free or lower costs accounts so we can afford to pay for a basic service like debit cards.

If you have any questions regarding our comments, please contact the undersigned at 502-625-0890 or Clay.Stinnett@syb.com

Sincerely,

A handwritten signature in cursive script that reads "Clay Stinnett". The signature is written in dark ink and is positioned above the typed name and title.

Clay Stinnett
CFO, Stock Yards Bank & Trust Company