



May 10, 2024

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> St. and Constitution Ave. NW  
Washington, DC 20551

Re: Docket No. R-1818, RIN 7100 AG-67, Notice of Proposed Rulemaking – Debit Card Interchange Fees and Routing

Dear Ms. Misback:

PlainsCapital Bank is a subsidiary of Hilltop Holdings, a \$16.5 billion asset holding company. PlainsCapital Bank provides a full array of financial products and has branch locations in all the major markets in Texas. We greatly appreciate the opportunity to comment on the Notice of Proposed Rulemaking on Debit Card Interchange Fees and Routing (NPRM).

PlainsCapital Bank became categorized as a large issuer in 2016 and the effects of the interchange cap, combined with other regulatory limitations, have been drastic. In an effort to ensure our debit portfolio would break even, we had to eliminate our debit rewards program. Shortly after, the ability to service free checking accounts also became unsustainable. Lastly, we removed instant issue card machines from branches and moved to a centralized issuance of debit cards, which means delays for our customers to receive and use their new card but reduced the expense of producing a debit card, which we cannot recover under current rules. We have since added a low/no cost checking product with basic checking services. We have also greatly reduced overdraft fees in response to impending guidance from regulators. There are very few levers left to pull to reduce our expenses related to our debit card program. The Federal Reserve acknowledges in the NPRM that as many cuts that could be made have already been made.

In reviewing the NPRM and the associated Issuer Survey data, the most glaring observation is that at current interchange rates, 77.4% of issuers are exceeding costs, which accounts for 99.5% of transactions. So inversely speaking, 22.6% of issuers, accounting for only .5% of transactions, cannot cover costs at the current interchange rate. Therefore, 22.6% of issuers are NOT being reasonably and proportionately compensated for their debit card transactions. The updated methodology of applying a weighted average and analyzing costs on a per transaction substantially skews the data toward large institutions. In short, the Durbin Amendment requires that the interchange fee be “reasonable and proportional to the cost incurred by the issuer with respect to the transaction” and both the current and proposed calculations do not allow for the smaller covered issuers to be fairly compensated for debit card costs.

While the rule writing is incredibly complex with datasets across a large range of asset sizes (\$10 Billion to \$3.3 Trillion), the institutions at the smaller end of this range are unfairly disadvantaged. At our size, we use third-party processing services that impose annual CPI increases, and we simply do not have the level of negotiating power, inhouse development resources, and opportunities for efficiencies that larger institutions have. While the entirety of the survey shows debit card costs have decreased, we have seen our costs increase.

There is no stated rationale for the Federal Reserve's target recovery rate of 98.5%, which shows that 66% of issuers do not fully recover their base component costs. **The only approach that could fairly accommodate institutions from \$10B to \$3.3T is to apply a tiered interchange rate to allow covered institutions to collect reasonable and proportionate interchange rates in similarly situated groups.** It is common in the regulatory landscape to allow for banks of similar size to be situated together: under \$10B, \$10B - \$100B, and \$100B+. The tiers could be incorporated to match the current process of evaluating asset size at year end and be implemented on July 1, just as the current regulation allows for the \$10B regulated threshold to be implemented.

Additionally, the Issuer Survey does not allow us to fully report all costs related to our debit card programs that account for advancing technology. For example, mobile app control of cards and card production are not allowed to be included though they contribute significant capital and ongoing expenditures. The cost of debit card production has increased 3-4 times since the implementation of chip and contactless technology.

With respect to automatic repricing, having the interchange rates be announced mid-year is difficult for budgetary purposes for institutions with the traditional year-end accounting closure. If rate changes could be announced mid-year for February 1 implementation, this allows for more effective budgetary planning for all parties involved. While having changes to these rates without opportunity to comment may allow for a more efficient process going forward, it would be ideal to build in a comment period on a regular cadence to provide the various impacted parties with the ability to voice concerns or to address changes to the debit environment.

In summary, the updated NPRM will greatly harm our financial institution and all the other institutions at the lower end of the asset cap, as we will be upside down on the costs related to servicing our debit card program. The most obvious data sets provided by the Issuer Survey show a large range of expenses for debit card transactions based on the size of the issuer. The approach for covering a percentage of transactions causes a large number of institutions that account for a very small portion of the transaction volume to not receive reasonable and proportionate debit interchange. We propose that the Federal Reserve consider tiering the interchange rates in order to allow the smaller institution's data to be used to calculate a fair interchange rate.

Sincerely,

Malessa Johnson  
SVP, SR Manager Payment Operations & Products