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May 10, 2024

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, D.C. 20551

Submitted via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Re: Docket No. R-1818, RIN 7100-AG67

Dear Ms. Misback:

Centennial Bank (“Bank”) appreciates the opportunity to respond to the Federal Reserve Board’s (“FRB”) proposed rulemaking that is expected to significantly decrease the interchange fee cap under Regulation II (the “Proposal”). We are a \$22 billion mid-size bank, with branch locations in Arkansas, Florida, Alabama, Texas, and New York. We serve a diverse range of customer sectors, including individuals, small businesses, and large corporations. The Bank specializes in meeting the financial needs of these customer sectors by offering a broad array of banking products and services tailored to the unique requirements of each.

The Proposal advanced by the FRB, if finalized, will lead to unintended consequences, which will be to the detriment of consumers, small businesses, and financial institutions. Centennial Bank respectfully opposes the Proposal based on the following opinions and strongly urges the FRB to withdraw it.

#### **I. Consumers will Continue to be Harmed**

The Proposal would reduce fee income revenue that covers the numerous costs banks incur to support and service deposit account relationships, which provide unbanked and underbanked consumers with affordable access to essential banking services at minimal expense. The original proponents of the Durbin Amendment claimed that merchants would pass on savings to consumers. However, as the FRB’s own study makes plain, merchants who claimed they would pass on those savings never did. If the FRB lowers the Interchange Price Cap as proposed, it will only further benefit merchants at the continued expense of consumers.

Even more, the Proposal could limit innovation in the payments system, particularly in areas such as fraud detection and prevention. Incidents of fraud has more than tripled from 2011 to 2021 and as these instances of fraud become more sophisticated, it is imperative that covered issuers are encouraged to enhance their investment in these critical areas. Interchange fee revenue can be used to foster the

development of new technologies, ultimately benefiting all participants in the payments system, including consumers.

## **II. The Data under Regulation II's Proposal is Inadequate and Outdated**

The 2021 data supporting the Proposal is outdated and incomplete, which has a direct impact on the FRB's cost-benefit analysis covered in its Proposal. Covered issuer cost data does not support the FRB's proposed amendments to the Interchange Price Cap because the 2021 data lacks comprehensiveness by failing to encompass critical financial institution costs like card production, card and statement delivery costs, account establishment and maintenance, non-sufficient funds handling and losses, customer inquiry costs, and fraud and monitoring costs. It is imperative that the FRB base its policy decisions on a comprehensive understanding of the way that a financial institution views the cost of a transaction, including indirect fixed costs associated with supporting a debit card system.

Additionally, it is not possible for the FRB to have current data on the debit card costs incurred by banks, given the data does not include the impact of the FRB's recently imposed debit card routing rule on bank costs. This routing rule went into effect on July 1, 2023. The new routing rule affects expenses such as network fees and fraud monitoring costs. Understanding changes in these elements are essential to any credible calculation of a reasonable Interchange Price Cap.

## **III. The Public Will Lose Access to Participate in Future Changes**

The Proposal to update Regulation II every two years based on collected data raises significant concerns about the role of public commentary in rulemaking. The Proposal will undermine the health of financial institutions and the payments system, as well as limit public participation in future rule changes, as required under the Administrative Procedure Act. The Proposal foregoes this crucial process by automatically resetting the price cap calculation based on data collected by the FRB. This "set it and forget it" structure of the Proposal could exclude important technological innovations or other meaningful considerations.

## **IV. Conclusion**

In conclusion, Centennial Bank urges the FRB to withdraw the current Regulation II proposal. Alternatively, we strongly urge the FRB to conduct significant additional research before proceeding further. This research should analyze more recent data and reflect the actual experiences of covered financial institutions.

Centennial Bank appreciates the opportunity to provide our views on the Proposal. We welcome an opportunity to discuss our comments further.

Sincerely,



Tracy French  
Chief Executive Officer  
Centennial Bank