



May 11, 2024

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

RE: Comments in Response to Debit Card Interchange Fees and Routing Notice of Proposed Rulemaking Docket No. R-1818 or RIN 7100-AG67

Dear Secretary Misback:

The Louisiana Bankers Association (LBA) appreciates the opportunity to comment on the proposed rulemaking on Debit Card Interchange Fees and Routing, issued November 14, 2023. The LBA is the only banker's association in the state of Louisiana and is made up of over 115 member banks and thrifts. The vast majority of our members are Louisiana-domiciled community banks.

We ask you to withdraw this proposed rule that would tighten the price caps on debit interchange under Regulation II. This proposal, if implemented, will result in an immediate 30% cut in debit interchange revenue for banks, and will harm consumers by increasing the cost of everyday banking services currently supported by interchange revenue.

Banks invest heavily in payments system technology to ensure that their customers, both individuals and businesses, can transact safely and securely across a wide range of platforms. This proposal not only disincentivizes that investment by misappropriating the income derived from it, but also fails to accurately account for the real-world cost banks incur to facilitate transactions. In fact, the Federal Reserve's (hereafter referred to as "Fed") own data clearly demonstrates that hundreds of smaller issuers will be unable to cover their debit card transaction costs under the proposed formula. This will likely further restrict debit accessibility for consumers and could even feed the current trend of consolidation among community banks as another key source of revenue is regulated away.

Beyond the immediate impact on debit card programs, this proposal will likely also impact banks' ability to offer basic banking services, like checking accounts, at no or low-cost to consumers. Basic deposit accounts are operationally expensive to service and maintain, and banks rely heavily on interchange revenue to offset the cost of those accounts, especially where balances are low and other banking activity is limited. As part of its analysis, the Fed should look carefully at the relationship between debit interchange and other banking products and services that are vitally important to financial inclusion efforts.

The Durbin amendment, enacted in 2011, was poorly conceived policy that effectively eliminated debit card rewards and reduced access to free and low-cost checking accounts for consumers. Data from the first few years following the establishment of the current cap show that the percentage of regulated banks offering free checking accounts declined from 60 percent to less than 20 percent.

This new proposal to further cap interchange will only exacerbate the problems caused by the original Durbin amendment. So called “community bank exemptions” are a myth as LBA-member community banks have consistently told us they saw a 20-30 percent reduction in debit card interchange fees after the Durbin Amendment took effect, despite having an “exemption”.

The Fed is tasked with setting a “reasonable and proportional” debit card interchange fee that reflects the costs incurred by issuers during the transaction process. However, the proposed approach in this rulemaking effort of a single fee for all transactions ignores the complexities of the debit card payment system. The credit card system, which is analogous with debit cards at the point of acceptance, uses interchange rates based on merchant-controlled factors like data security methods (key-entered vs. chip vs. tokenized), business type, dispute volume (indicating customer complaints), and even merchant size. This creates a vast number of possible interchange rates that properly allocate costs based on the different risk profiles associated with the payment activity.

The Fed is not statutorily required to pursue any change to existing regulations under the Durbin amendment and we strongly discourage you from needlessly doubling down on this demonstrably damaging policy.

Merchants receive great benefits from the current payments system, including increased sales, faster transactions, reduced costs of cash, new retail channels, and prompt, guaranteed payments. The Fed should not pick winners and losers by shifting legitimate costs of doing business from merchants to financial services providers, thereby making it more difficult and more expensive for consumers to obtain banking services. This abandons free market principles.

In addition, the payments system is governed by private contracts entered into between merchants, networks and financial institutions. It is not appropriate for the Fed to continue disrupting free enterprise by wading into this complex issue.

For all the above reasons, The LBA urges you to withdraw this proposal.

Thanks for your consideration of the above comments, and we also urge you to strongly consider the comments submitted by both the American Bankers Association and the Independent Community Bankers of America.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe", with a stylized flourish at the end.

Joe Gendron
Director of Government Relations