LAFCU
YOUR CREDIT UNION FOR LIFE

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May 10, 2024

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System

Re: Docket No. R-1818 and RIN 7100-AG67 – Regulation II: Federal Reserve's Proposed Rule on Debit Interchange Price Caps

LAFCU appreciates this opportunity to submit comments to the Federal Reserve Board of Governors concerning this proposal on debit interchange price gaps. Credit Unions were established by Congress over 80 years ago as not-for-profit organizations due to our unique mission of "People Helping People". We are Member-Owned, not-for-profit organizations that exists solely to serve the needs of our Members. Our collective mission and structure allows us to address and serve the unique needs of the underbanked and underserved—those who live with modest means and do not have equitable access to financial services. It is our collective commitment to serve diverse and historically underserved communities—75% of credit union branches are in middle-, moderate-, and low-income communities.

Interchange fees are essential to credit unions, as this revenue helps us recoup the growing costs associated with credit card fraud protection, credit monitoring, and allows credit unions as card issuers to shield both members and merchants from fraudulent charges through zero-liability policies when fraudsters attack. Fraud is on the rise, and the possibility of reduced interchange fees poses a real threat to data security as a whole.

When the Durbin Amendment was passed, it was the intent of policymakers that merchants would pass on savings from reduced interchange fees to the consumer. However, studies show that this did not occur the way they intended it to. According to a study conducted by the Richmond Federal Reserve along with Javelin Strategy and Research, it was found that a large portion of merchants raised their prices; debit card restrictions (i.e. minimum purchase requirements) were implemented by many merchants as their costs of processing debit card transactions increased; 77% of merchants did not change their prices following the implementation; 22% of merchants chose to increase prices; and only 1% of merchants passed savings on to their customers.[1] Although this was intended to benefit the consumer, it is clearly evident that merchants were the sole beneficiaries of the Durbin Amendment.

In its current state, the payments ecosystem offers a win-win-win: consumers win with having easy-to-use credit with effective fraud detection and monitoring, merchants win with guaranteed payments, and financial institutions win by being able to recoup the significant costs associated with providing safe and secure products to consumers. If Regulation II were to be implemented, the reduction of interchange fee revenue for credit unions and other debit card issuers will have substantial negative consequences across

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[1] Wang, Z., Schwartz, S., & Mitchell, N. (2014). The impact of the Durbin Amendment on merchants: a survey study. Economic Quarterly, (3Q), 183-208

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the entire payments ecosystem. Some of the various impacts that credit unions, community banks, and other financial institutions may face include a decline in products and services offered, and our ability to remain invested in fraud prevention and data security will be diminished. With that, fraud losses, mitigation strategies, and prevention practices will suffer or the costs to maintain those protections will significantly increase. For smaller institutions, this could be a make-or-break situation.

Should this proposal be implemented, the trends we've seen in the past with merchants being the sole beneficiary of these interchange fee caps will continue to present themselves. This will greatly benefit the profit strategies of merchants and retailers at the expense of consumer protection and data security. As credit unions were founded by Congress under a consumer-centric model of serving the underbanked and underserved—serving those with modest means—a proposal like this would negatively impact our ability to serve consumers with equitable access to essential financial services.

For these reasons, we urge the Board of Governors to halt any further regulatory action on interchange until it has had time to effectively study the true impact a proposal like this would have on credit unions, community banks, other debit card issuers, and most importantly, the consumer.

Sincerely,

Ryan Larson
Director of Professional Services
LAFCU Credit Union