

The Honorable Jerome Powell  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Ave, N.W.  
Washington, D.C. 20551

Regarding: Federal Reserve Board's October 2023 proposal to reduce debit interchange

Dear Chairman Powell,

I am writing to express my deep concern regarding the debit interchange reduction proposed by the Federal Reserve Board on October 25, 2023. Please do not lower debit interchange. If you do, you will hurt American consumers.

Your proposed reduction seems to be obviously in conflict with your own mission statement. There, on your website banner, one can clearly read and understand your goal:

“The Federal Reserve, the central bank of the United States, provides the nation with a safe, flexible, and stable monetary and financial system”.

As a former bank executive who spent over 25 years working to develop our bank's debit card program, I submit to you that by reducing interchange you would actually make the financial system *less* safe, *less* flexible, and *less* stable. All of these outcomes would be contrary to your stated mission and would harm small banks especially, and the consumers that rely on them.

By lowering the base component of interchange to 14.4 cents, and the ad valorem component to 4.0 basis points, you would unintentionally allow that largest, most efficient banks enough revenue to pay their costs, while condemning the smallest banks to operate their debit card programs at a loss. You and I both know a bank with \$3.3 trillion in assets has a massive efficiency and cost advantage over a bank at the other end of the asset-size table, with \$10 billion in assets. One size didn't fit all when the original Reg II interchange Fee Cap came out. This new, much smaller interchange allowance would threaten the stability of all but the largest covered banks as they struggle to absorb a precipitous Fed-imposed decrease in revenue.

Consumers would ultimately suffer if Interchange were lowered. Firstly, the consumers that have or seek accounts at those smaller banks mentioned above would see the price of other banking services increase. We don't have to assume that. It happened last time, and the Government Accountability Office confirmed it in their February 2022 paper. It would surely happen again. Secondly, all affected banks, but especially those now forced to process at a loss by the interchange reduction, would reduce their investment in continued improvements to the payment system. Both of these reactions would contribute to instability, but also to a reduction in safety, and flexibility.

Over the last 10 years debit card issuers have managed to meet the changing needs of the American consumer *in spite* of the original (2011-2012) reduction in interchange. The evidence of the Issuers' continued investment is in your wallet, and on your phone. Debit cards now carry chips that have delivered a significant improvement in the security of face-to-face purchase transactions. Developments such as chip cards cannot continue to happen without sufficient revenue. Issuers also

developed contactless cards that provide security even as they dramatically speed up purchase transactions. These too would not have been developed without sufficient revenue to make the investment. Changes to the online banking app on your phone allow you to turn your card on and off if you suspect fraud. Fraud detection systems automatically pause activity, alert cardholders, and terminate fraudulent transactions “in flight” before consumers are even aware that fraud has been attempted. These are just a few of the many improvements that issuers have made since that original reduction in issuer interchange revenue. They were possible because banks sought out and created operational and cost efficiencies that, given the existing interchange level, allowed process and product improvements for the consumer. Other advances are being contemplated all the time, but they cannot happen in a way that benefits all American consumers if the revenue is taken down to a level below a smaller banks’ cost to process. Larger banks may be able to afford the investment. Smaller banks will not. Consumers and smaller communities will suffer as a result.

Please do not reduce debit card interchange. If you reduce that revenue stream banks will be forced to choose some combination of three harmful options. They will need to increase prices of other services to create a compensating revenue stream. They will need to reduce investment in consumer financial products to cut expenses. The third, equally unattractive option will be to just accept the ~30% reduction in revenue and accept the impact on shareholder value. None of these options bodes well for consumers in the end.

The last time I had occasion to write a letter to the Federal Reserve Board on this subject was about 10 years ago. At that time, I borrowed a phrase that is commonly attributed to the Hippocratic Oath: “First do no harm”. I am dismayed to find that now, 10 years later, I am bound to offer the same advice again. Please, whatever actions you take on the matter of Interchange, do no harm to the payment system. To do so would ultimately hurt the American consumer.

Sincerely,

Carl Bradbury

Chesterfield, MO 63017