Proposal:	1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing
Description:	

Comment ID:	139407
From:	Craig Puckett
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Subject:	R-1748; Regulation II - Debit Card Interchange Fees and Routing

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

Dear Board of Governors of the Federal Reserve:

I write today in support of the proposed rule concerning Debit Card Interchange Fees and Routing. Independent grocers like myself work tirelessly to feed and serve communities across the United States. Every day, my business competes on price, quality, and service to make sure that our customers keep coming back. As a result of this fierce competition, net profit margins for the grocery industry average 1-2% as grocers work diligently to contain costs and pass savings onto customers. For a Main Street business like mine, the costs associated with accepting card payments have a very real impact on the viability of my company. Acceptance costs for card payments are consistently one of my most expensive costs of doing business, next to wages and healthcare. I urge the Federal Reserve Board of Governors to take immediate action to enforce the proposed routing requirements and reduce the regulated rate as required by law.

COVID-19 has not only changed how Main Street businesses serve our customers, but the pandemic has also accelerated shifts in how Americans are choosing to transact. Like other retail industries, grocery saw a three-fold increase in e-commerce almost overnight. Unfortunately for merchants, however, this shift towards card-not-present (CNP) debit transactions has left us without the ability to choose how to route debit card payments when customers shop online.

The lack of routing competition for online debit has led to higher costs of acceptance for small businesses like mine. Worse yet, my inability to choose how to route these transactions is solely due to issuers choosing not to enable single-message networks to process CNP debit. While the average per-transaction interchange fee for dual-message exempt transactions is more than double the cost of single-message exempt - $0.54 to $0.25 per the Federal Reserve's 2019 data - many if not most of the smaller, exempt issuers have already enabled both networks for CNP. The largest U.S. debit issuers by volume tend to be the primary culprits of this lack of enablement. According to external industry sources, on average, regulated banks enable both unaffiliated debit networks to process CNP transactions on fewer than 40% of their cards, while exempt banks' enablement rates are much higher as roughly 60% of their cards have both networks enabled for CNP. It is past time that the Board update Regulation II's routing requirements and stop banks from using enablement to interfere with merchants' routing choice.

In addition to finalizing the proposed rule, the Board needs to update the regulated debit interchange rate to better align the fees to the actual issuer costs to process a debit transaction. The current regulated rate - averaging between $0.22 and $0.24 per transaction - is over five times larger than the costs incurred by covered issuers. The current rate is neither reasonable nor proportional, and yet the Board has chosen to keep the fee rate constant for a decade. Meanwhile, the Board notes in its 2019 debit interchange report - released in tandem with the announcement of the proposed rule - that covered issuer costs have decreased by roughly half since 2009. As technology improves, allowing

issuers to process debit transactions more cheaply, it appears that the only savings realized from these innovations are pocketed by the issuers.

The Board must move quickly to implement the proposed rule and to update and decrease the regulated debit interchange rate for independent community grocers like myself, our customers, and Main Street businesses across the country.

Thank you.

Sincerely,

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