

By Electronic Delivery to regs.comments@federalreserve.gov

August 9, 2021

Ann E. Misback

Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Ave NW

Washington, DC 20551

Re: Docket No. R-1748: Debit Interchange Fees and Routing (RIN 7100-AG15)

Ms. Misback:

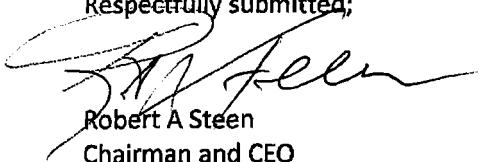
This letter is offered for consideration on behalf of Bridge Community Bank and Glenwood State Bank to the Board of Governors of the Federal Reserve System in response to the request for comment regarding the proposed rule to amend Regulation II. The proposed changes would clarify provisions of the basic two network requirement and the routing choice promised to merchants and their processors under the original Reg II language. Bridge Community Bank and Glenwood State Bank are in strong support of this clarification and the proposed amendment. Holding parties accountable is an essential caveat.

For those that might argue that such changes would create more confusion, we would submit that the existing disregard for the intent of Reg II has made it virtually impossible for merchants, particularly small merchants to participate in any choice of routing the transaction – the very premise of the two network requirement. In fact, in many respects, their own merchant acquirer is often directing routing that in no way serves their client merchant's best interests. Many of those that provide card services to small merchants are essentially unregulated and unaccountable. The current business of processing card payments for small merchants cries out for industry standards including hardware at the point of sale (including card not present) and the software that creates the routing default while providing virtually no choice for the merchant. Standards will not impede competition, innovation nor new technological advances but rather give all those that accept card payments a reasonably consistent and predictable business model. Determining the least cost route should not be a science and should be a Reg II promise kept – at least as an opportunity. Too often, small merchants with little understanding of

their Reg II rights of choice and virtually no means to make a choice, are held hostage to a key vendor's relationship with a single merchant acquirer option. Many small merchants now charge a convenience fee (a surcharge by any other name) to recover the mysterious interchange which includes processing the transaction as "credit" as opposed to a lower cost and more secure pin debit transaction. Some would also imply, because of their obvious dominance, that they have some claim to technology that offers more security than other smaller networks. For example, the notion that somehow, signature is more secure than a pinless debit transaction defies logic given the identical cryptographic specs utilized. Moreover, biometric security features are universally available and used, so again, large does not equate to more secure.

As small merchants try to stay competitive, they are using other ways to equalize the process. For example, cash discounts are common. To further illustrate the level of the current confusion index, there are instances that a card transaction plus a fee is still less expensive than cash. It is little wonder that consumers do not know what to expect, including a denied transaction for lack of a debit network access simply because the merchant processor did not check the box for that network. Again, merchants with no routing choice, find their own (often misguided) path to lower transaction costs. The proposed amendment will not make this perfect for the merchant, processor, issuer, or network but it will clarify that Reg II means what it says. Card not present can mean different things but for now, we know what it is intended to mean and this clarification will allow all participants to have a better chance to keep up with what most of us can actually understand as the means of access, today and with tomorrow's technology.

Respectfully submitted;



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