



One Mission. Community Banks.®

August 10, 2021

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

Regarding: Notice of Proposed Rulemaking – Debit Card Interchange Fees and Routing;
Document No. R-1748 and RIN 7100-AG15

Dear Ms. Misback:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents nearly 300 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding the Board of Governors of the Federal Reserve System’s (“Federal Reserve”) Notice of Proposed Rulemaking requesting comments on a proposal to amend Regulation II to clarify the requirement that each debit card transaction must be able to be processed on at least two unaffiliated payment card networks applies to card-not-present transactions. Further, to clarify the requirement that Regulation II imposes on debit card issuers to ensure that at least two unaffiliated payment card networks have been properly enabled for debit card transactions, and finally, to standardize and clarify the use of certain terminology (“Proposal”).

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high-quality products. CBAI members hold more than \$70 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

CBAI has consistently been engaged with policy and rule makers regarding debit interchange. Leading up to the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), CBAI opposed the amendment to the Electronic Funds Transfer Act (Section 1075 or the “Durbin Amendment” or “Amendment”) because debit interchange had absolutely nothing to do with the causes or prevention of the financial crisis which Dodd-Frank was specially tasked to prevent. We also oppose price-fixing, which the debit interchange cap in fees represented. In addition, CBAI was always skeptical of the proposition that the Amendment’s fee reductions would be passed on to consumers. A subsequent merchant survey by the Federal Reserve Bank of Richmond confirmed these benefits were not being passed on to consumers.

Notwithstanding these objections to the Durbin Amendment, the asset exemption threshold of \$10 billion exempted all CBAI members from the reduction in interchange fee income, and the requirement for there to be a choice of two unaffiliated networks preserved at least a minimum level of competition for transaction routing to help prevent certain large payment card networks from monopolizing the routing of debit of transactions. Since the implementation of Regulation II, and despite the Amendment’s exemption from the reduction in revenue from the rate caps restrictions, NET interchange income for community banks has decreased because certain large payment card networks have found ways to increase costs and raise “pass-through” fees to financial institution card issuers, which have significantly negated the intended benefit of the community bank exemption. Also, this rulemaking is necessary because apparently dual routing is not always properly enabled, which adds unnecessary network processing fees to each and every debit transaction for both the small merchant involved as well as the community bank which issued the card. **CBAI urges the Federal Reserve to scrutinize and prevent certain large payment card networks from operating their debit payments system for their own benefit, against the beneficial intention of the Amendment, and to the detriment of community banks and small merchants across the country.**

As stated in the Proposal, when the Fed promulgated Regulation II, “the market had not developed solutions to broadly support multiple networks over which merchants could choose to route card-not-present transactions,” but “technology has subsequently evolved to address these barriers,” yet “two unaffiliated networks are often not available to process [these] transactions because some issuers do not enable two networks for those transactions.” **CBAI urges the Federal Reserve to adopt the proposed revisions to clarify that card-not-present transactions are a “particular type of transaction” for which two unaffiliated payment card networks must be made available and enforce that requirement.**

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CBAI also urges the Federal Reserve to ensure strict compliance of regulations to prohibit issuers or payment card networks from imposing exclusive arrangements with respect to the payment card networks over which electronic transactions may be processed, and also to forbid issuers and payment card networks from directly or indirectly inhibiting any person that accepts debit cards for payment from directing the routing of an electronic transaction over any network that may process the transaction.

CBAI firmly believes the overwhelming number of community banks comply with the debit interchange requirements. **CBAI urges the Federal Reserve to focus its attention and demand compliance with the regulations by all parties to debit card payments, and not increase the regulatory burden on community banks.**

Thank you for considering our thoughts and recommendations on this important matter. If you have any questions or require any additional information, please contact me at davids@cbai.com or (847) 909-8341.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations