

Ann Misback  
Secretary  
Board of Governors of the Federal Reserve  
20th Street and Constitution Ave  
Washington, DC 20551

Re: Proposed Changes to Regulation II- Debit Card Interchange Fees and Routing (Docket No. R-1748, RIN 7100-AG15OP-1747)

Dear Ms. Mishback:

I strongly disagree with the Federal Reserve's proposed rule to make changes to Regulation II, as it will have a significant impact on community banks like mine. My community bank is particularly vulnerable to regulatory changes which combine new compliance costs with reductions in what has always been fairly-earned revenue. This expansion of the routing requirement to all card-not-present transactions creates an unfair price cap on the revenue community banks receive to participate in these transactions.

Any expanded requirements will create significant challenges for community banks trying to provide the best financial products for our customers. Debit card revenue is particularly vital to offering affordable core deposit accounts and the many digital products that come with little to no costs, but the proposed rule does not acknowledge the harms that this intervention will cause to consumers in the two-sided debit card market. While we care deeply for small businesses in our communities, this proposed rule will greatly benefit the very large national merchants with great technology who ship their products to customers and bypass the small business owner. Merchants matter, but community banking is also an essential part of the American economic landscape and should be equally valued in policymaking.

While presented as a clarification, my bank will experience the proposed rule as a material change in how we handle debit card transactions. Fundamentally, the rule shifts the compliance paradigm for the Durbin amendment by placing the burden on my bank to ensure merchants can enforce certain new rights across all geographies and transactions. Yet the rule does not explain how a community bank can ensure these conditions are met, in a card system where all my bank controls is our own cards and we have no knowledge of or control over merchants' transaction choices. In a nation that is geographically large, national merchants can be located far from any given bank, making the all-geographies requirement particularly challenging. My bank has complied with the Durbin Amendment for a decade by issuing cards with two networks and the merchant had to do their part by supporting cards that came across the checkout counter. It is beyond any reasonable expectation that I can issue a card that is fully guaranteed to support every merchant across the country who insists on an unsupported transaction configuration. The information to prevent such a violation would be literally unknowable since I do not have a business relationship with them. Industry experts believe this would require elaborate and expensive technical programming and likely still fall short. The Federal Reserve asserts that there are solutions available today, yet then goes on to explain that these transactions are not used frequently enough for merchants' liking. There are legitimate operational reasons for these trends, which, unfortunately, the proposed rule does not explore. Working through these myriad issues, on a timeline set by my third-party providers, could crowd out and deprioritize discretionary investments I would like to make, including adopting faster payments systems.

Secondly, it's important to address how this proposed rule could expose the payments ecosystem to more fraud and potentially reduce the overall level of security in the system, creating real consumer

impact. Different networks and transaction types offer different protections against fraud, including the ability of issuing institutions to charge back fraud to the merchant. Banks manage the transactions they support with these differences in mind and work to offer customers the most secure experience, minimizing fraud events. This proposal makes it even more difficult, if not impossible, for fraud-conscious financial institutions and consumers to manage how debit transactions are processed. Under the current rule (and if it were to be applied to card-not-present transactions) retailers, not consumers, choose how transactions are routed. Often the merchant may choose the lowest-cost routing option, regardless of the value that option provides to other parties in the transaction. Over time, this may undermine fraud protection benefits like zero liability protection and text alerts on potentially fraudulent debit transactions. Consumers expect all these benefits as part of my bank's brand promise, but when another party is given nearly-total control of how my banks' debit cards operate, they likely will not be sustainable for the industry. At a time when banks have worked so closely with the Federal Reserve to improve payments security, the proposed rule takes away key latitude and tools for financial institutions to do everything possible.

Additionally, if a retailer chooses a debit network and transaction type that lacks security and necessary fraud mitigation benefits and fraud occurs, they bear limited responsibility. This is particularly true of "PINless" transactions, which consumers assume to be signature transactions, but are entirely different. For instance, the world's leading online retailer says that refunds to consumers can take 2x to 3x longer via PINless transactions, leaving banks to pick up the slack and resolve the customer service problems that can result. PINless transactions are often difficult or impossible to decline when necessary and can be harder or impossible to reverse in the event of fraud or consumer error. Banks like mine cover the losses and reverse fraudulent transactions. We have the most incentive to ensure consumers are protected yet this proposal limits our ability to choose the best debit networks to route transactions and best serve and protect consumers.

Lastly, I am concerned the proposed rule would further suppress competition among debit networks and the required competition analyses were not completed. The rule could drive further consolidation among the debit networks, reducing choices for issuers and small businesses. There has already been significant vertical consolidation between bank technology vendors and payment networks. As proposed, the rule would benefit a handful of large merchants, potentially increasing their competitive advantage over Main Street stores. The proposed rule lacks a fulsome competition analysis and does not mention that the U.S. Supreme Court found in 2017 that the card market is a two-sided one, where policymakers must balance the commercial interests of issuers and merchants. The proposed rule still follows the one-sided market model where network dynamics will be tilted towards merchants who will not directly bear consequences if the cardholder experience offered by my bank is diminished. We should be encouraging an environment where debit networks compete on the quality of their network and whether they provide the best service for routing debit transactions, not by arbitrarily imposing government mandate that only account for one part of the picture.

The provisions of Regulation II have significant negative effects on consumers and banks and should not be expanded in any way. I would rather spend my resources offering customers new options like faster payments systems that are becoming available now than the distraction of revisiting my Durbin Amendment compliance posture. To enable a truly competitive marketplace, I strongly encourage the Federal Reserve to withdraw the proposed rule and work with both the issuers and merchants to come up with a balanced solution to expand routing controls for card-not-present debit transactions.

Thank you for the opportunity to submit comments on this matter.

Sincerely,

Jude Lengell  
Vice President – North Shore Bank