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Submitted through Agency Website at:  
<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>

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

August 1, 2021

Dear Ms. Misback:

On behalf of the credit unions in the State of Iowa, we appreciate the opportunity to comment on the Federal Reserve Board's proposed rule regarding debit card interchange fees and routing. The Iowa Credit Union League (ICUL) is the non-profit trade association that represents the interests of Iowa credit unions and their over 1.3 million member-owners. It is no surprise that payment technologies are rapidly evolving, especially given the new consumer spending habits as a result of the COVID-19 Pandemic. As these payment technologies evolve, it is understandable that changes to regulations will be necessary to ensure their effectiveness in ensuring fair and safe commerce for consumers, merchants, and financial institutions. However, when considering regulatory changes such as this one, the Iowa Credit Union League urges the Federal Reserve Board to consider the negative impacts that they could have on community based financial institutions, including credit unions and their members. We have several concerns created by this proposed rule and ask that the Federal Reserve not proceed with it.

### **Concerns with Proposed Changes to Regulation II**

The changes to Regulation II that are being proposed will have a significant, negative impact on credit unions in Iowa. Credit unions are vulnerable to changes in regulations like this, as it imposes new compliance costs with a reduction in fairly earned revenue. Under this proposal, there is a price cap on the revenue credit unions receive from debit card transactions resulting from the expansion of routing requirements to all card-not-present transactions and the mandate to accept PINless transactions. The proposed rule will create an environment with extensive recurring costs to comply with the new rules, while also reducing a credit union's operational ability to mitigate the higher fraud costs associated with newly addressed transactions.

These newly expanded requirements will create new hurdles for Iowa credit unions trying to provide affordable financial services to the communities that they serve. Debit cards are a vital service that credit unions offer their members so that they can access their funds and purchase goods and services. The revenue that credit unions earn from debit



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card transactions is used to offset the costs of providing the cards and operating the checking accounts that they are tied to.

ICUL is also concerned that this proposal will suppress the competition amongst debit card networks as there was not a formal analysis completed by the Federal Reserve on this matter. This proposal could encourage more consolidation within the debit card networks which would in turn reduce the number of choices for card issuers and small businesses. There has already been a high amount of consolidation between technology vendors for credit unions and payment networks, and this change could further exacerbate this issue. A formal competition analysis is imperative here to highlight the increased upper hand that this would provide large merchants. In 2017, the U.S. Supreme Court found that the debit card market is two-sided, where there must be a balance between the commercial interests of debit card issuers and merchants. This proposal is one-sided, where the merchants will have an advantage and not bear the consequences of a diminished cardholder experience as credit unions try to comply. A different approach to this proposed rule would be to encourage an environment where debit card networks compete on the quality of their networks and the service that they provide for routing debit transactions.

#### **Final Thoughts**

ICUL encourages the Federal Reserve Board to consider the impacts that proposed regulatory changes like this one will have on Iowa credit unions and their members. As community based financial institutions, the main mission of a credit union is to improve the financial well-being of the members of the community that it serves. Changes like this could severely harm the effectiveness of a credit union in achieving this mission and end up harming the financial well-being of consumers as a result.

ICUL thanks the Federal Reserve Board's willingness to seek industry comment on this proposed rule. We encourage you to consider the negative impacts that these changes could have on Iowa credit unions and their members.

Sincerely,



Murray Williams  
CEO/President  
Iowa Credit Union League



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