



August 5, 2021

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

Ladies and Gentlemen:

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

This letter is submitted to the Board of Governors of the Federal Reserve (the “Board”) on behalf of Alaska USA Federal Credit Union (“Alaska USA”) in response to the Notice of Proposed Rulemaking concerning Debit Card Interchange Fees and Routing issued by the Board on May 7, 2021, and published in the Federal Register on May 13, 2021 (the “Proposed Rule”)¹.

Alaska USA supports updating the regulatory language to better align different types of debit transactions and appropriate network routing options for merchants. However, the proposed language is too broad and could be interpreted to require issuers to belong to all networks in order to be in compliance. The current proposal creates an impossible compliance standard, imposes significant operational complexity, and increases expense that will ultimately impact consumers negatively.

The Proposed Rule states that an issuer is compliant only if “for every particular type of transaction (as well as geographic area, specific merchant, and particular type of merchant) for which the issuer’s debit card can be used to process an electronic debit transaction, the *issuer has enabled* at least two unaffiliated payment card networks to process the transaction.”² This varies greatly from the current standard of Point-of-Sale transactions where the requirement is that the Issuer provide two network routing options for the merchant. Neither banks nor credit unions can be fully aware of exactly which networks are accepted in every geographic area, as well as all merchants and merchant types. As written, the Proposed Rule would require all financial institutions, including Alaska USA, to add every U.S. debit network to their debit card programs.

Alaska USA currently employs 48 full-time equivalent employees (FTEs) to manage card fraud and dispute resolution activities. These highly skilled employees are trained to develop, implement, and monitor fraud mitigation strategies; process inbound and outbound fraud alert notifications to members; manage the transaction dispute process including interviews with members; conduct research with vendors; and perform chargeback processing. The Proposed Rule would require Alaska USA to increase our staffing for card fraud and dispute resolution activities significantly, and each employee would need to be trained to adhere to an unknowable number of payment networks and the self-prescribed fraud mitigation tactics and chargeback rules of those networks. Many smaller payment networks do not yet have sophisticated e-commerce fraud prevention infrastructures in place to combat e-commerce fraud activity, and it is reasonable to assume an inevitable material rise in card fraud. All of these factors will lead to added losses to be absorbed by credit unions, increased fraud exposure for credit union members, and long-term increases in banking costs for all parties.

¹ Debit Card Interchange Fees and Routing, 86 Fed. Reg. 26189 - 26195 (May 13, 2021)

² Debit Card Interchange Fees and Routing, 86 Fed. Reg. 26192 (May 13, 2021)

The costs to financial institutions that are directly associated with the Proposed Rule are significant. The vendor requirements associated with adding all U.S. debit networks to the debit card program include vendor due diligence, contract execution, billing and settlement reviews, and ongoing relationship management for every network. Alaska USA conducted a financial analysis with 2020 data and determined the credit union would have to increase resources significantly (at a cost of several hundred thousand dollars) to address the increased e-commerce fraud exposure and ambiguous chargeback rule processing. At the same time, our projected decrease in debit card interchange income is nearly \$2.5M. This brings the total annual financial impact to nearly \$3M in added expense and income loss, which is significant to an organization of our size. As a federally chartered not-for-profit institution, we are not in a position to simply absorb these costs with no impact to our membership.

We applaud the Board for its efforts to implement a simple clarification to Regulation II. Unfortunately, as written, the current effort is not a simple clarification. The Proposed Rule creates an impossible compliance threshold, increases fraud loss exposure to the credit union and its membership, imposes significant operational complexities and related expense, and impacts the credit union's ability to provide quality, affordable, and convenient financial services to its members.

Thank you for your attention to our request to reconsider the Proposed Rule and its operational and financial impact to issuers, and consequently to consumers. If you wish to discuss this letter, please do not hesitate to contact me at E.Pavlas@alaskausa.org.

Sincerely,

A handwritten signature in blue ink, appearing to read 'E. Pavlas', with a stylized flourish at the end.

Elizabeth Pavlas
Chief Operations Officer