

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Description:

---

Comment ID: 140242

From: Rachel Baugh

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Subject: R-1748; Regulation II - Debit Card Interchange Fees and Routing

---

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

I disagree with the Federal Reserve's proposed rule to make changes to Regulation II. It will have a significant impact on credit unions like mine. My credit union is vulnerable to regulatory changes which combine new compliance costs with reductions in fairly-earned revenue. This expansion of the routing requirement to all card-not-present transactions and accompanying mandate that we accept PINless transactions creates a price cap on the revenue credit unions receive from these transactions. The proposed changes also result in extensive and recurring costs to comply with these new rules, while reducing my operational ability mitigate the higher fraud costs associated with these newly-covered transactions. Because of these reasons the Federal Reserve should withdraw the proposed rule.

Expanded requirements will only create new challenges for credit unions trying to provide financial services to those that need them most. Credit unions offer debit cards as a vital service so that members can access their funds and purchase items from merchants and retailers. Revenue from debit transactions is used to offset the costs of providing debit cards to credit union members and operating the accounts that the debit cards are linked to. While we care deeply for merchants in our community, this rule will largely benefit the most profitable national merchants who ship their products to customers and who are not vital members of the community.

I am also concerned the proposed rule would further suppress competition among debit networks as the required competition analyses were not completed by the Federal Reserve. The proposed rule could drive further consolidation among the debit networks, reducing choices for issuers and small businesses. There has already been significant consolidation between credit union technology vendors and payment networks. As previously stated, the rule in current form would benefit a handful of large merchants, potentially increasing their competitive advantage over smaller 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 two-sided, where policymakers must balance the commercial interests of issuers and merchants. The proposed rule still follows the outdated 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 credit union 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 accounts for one part of the picture.

Thank you for allowing me to submit comments on this matter.

Sincerely,

Rachel Baugh  
1023 Medical Dr  
Brigham City, UT 84302  
rachel@elevatecu.com