

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

Description:

Comment ID: 140890

From: Raymond Ruvalcaba

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

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

The proposed rule on Regulation II for debit card transactions could expose the payments ecosystem to more fraud and potentially reduce the overall level of security in the system, creating real consumer impact. On behalf of my credit union, I request that the Federal Reserve withdraw the proposed rule.

Different networks and transaction types offer different protections against fraud, including the ability of issuing institutions to charge back fraud to the merchant. Credit unions 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 merchants 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 credit union's brand promise, but when another party is given near-total control of how my credit unions' debit cards operate, these services may not be sustainable. At a time when the industry has 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 to protect consumers.

Additionally, if a retailer chooses a debit network and transaction type that lacks security and necessary fraud mitigation benefits and fraud occurs, they bear very 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 states that refunds to consumers can take 2x to 3x longer via PINless transactions, leaving credit unions 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. These novel transactions did not exist in common usage when the Durbin Amendment was passed, so I am uncertain how they can be mandated upon card issuers now despite our reasonable reservations. By forcing us to take these less protected transactions, the proposed rule goes beyond the constrained routing rights merchants acquired in the Durbin Amendment. These transactions are often pushed on credit unions by core providers who own the very networks that benefit from them, which is hardly a competitive or fair scenario for us. It is credit unions like mine that 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.

Thank you for the opportunity to submit comments.

Sincerely,

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