

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

Description:

Comment ID: 140897

From: Terry Tucker

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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. Several years ago a similar action was supposed to lower the price of goods to consumers when the interchange process was changed for Credit Cards. The consumers never received the benefit from the loss of revenue to the banks and credit unions. The merchants kept it.

The proposed changes also result in extensive and recurring costs to comply with these new rules, while reducing my operational ability to mitigate the higher fraud costs associated with these newly-covered transactions. Because of these reasons the Federal Reserve should withdraw the proposed rule.

The Senate Banking Committee's meeting titled "Oversight of Regulators: Does our Financial System Work for Everyone?" held August 3, 2021 did little to address the topic, beyond opening statement from Committee Chair Sherrod Brown (D-Ohio). "We need no-fee accounts and allow everyone to open a bank account and have control over their money," he said. No fees, no overdraft charges, reduced Debit Card interchange fees, coupled with the Fed's commitment to a near zero return on investment dollars which have flooded into all of the financial institutions in the U.S.A. coupled with plenty of regulatory changes while financial institutions wait to see if they are going to be forced to write off billions of dollars in real estate interest due to COVID -19 and variants makes one wonder.....IS OUR GOVERNMENT TRYING TO DESTROY THE BANKING SYSTEM IN AMERICA? It certainly appears that way. Free everything coupled with losses and no income usually does not turn out well for a business. Part of the proposed Congressional Infrastructure package is to offer banking services through the Postal System. What a great idea!! An unregulated, unqualified entity that can't break even processing mailentering the banking business. We'll have a choice of waiting in line 45 minutes to mail a package OR cash a check.

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,

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