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

Description:

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From: League of Southeastern Credit Unions, David Pace

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

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Comments:

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Proposal: Debit Card Interchange Fees and Routing [R-1748]

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Your comment: Mr. Jared Ross President, League of Southeastern Credit Unions 2810 Premiere Parkway, Suite 150 Duluth, GA 30097 Ms. Ann E. Misback Secretary, Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue NW Washington D.C. 20551 Re: Debit Card Interchange Fees and Routing [RIN 7100-AG15] 08/11/2021 To Secretary Misback: The League of Southeastern Credit Unions ("LSCU" or "The League") would like to thank the Federal Reserve for the opportunity to comment on this matter pertaining to Debit Card Interchange Fees and Routing. The League represents 323 credit unions in the states of Alabama, Florida, and Georgia. These credit unions have a collective asset size of $120 billion and have a total membership in excess of 10 million members. We would like to make it known that we are strongly against the proposed changes as they have been put forward. The proposed changes will place an undue burden on our member credit unions who are already struggling given the current economic conditions. The costs of this proposed rule are massive and would present a long-term challenge to credit unions in order to remain in compliance with the rule. Due to this, we ask the Federal Reserve to withdraw the proposed rule in its entirety. Credit unions often provide financial services to those who need them most. These are people who may not be able to get access to credit cards due to a poor credit history and as such, a debit card is the best way for them to be a part of the modern financial system. These people are the ones who suffer first when fees have to be implemented due to loss of revenue from card fees (such as higher insufficient funds fees). The Durbin Amendment has already harmed the debit card environment enough by limiting the fees that are charged to merchants on debit card transactions. The average amount of fees before the amendment was around 44 cents and after the amendment the fees are largely capped at 24 cents. This led card issuers to start charging the maximum fee they could on all transactions that they processed. This, in effect, punished smaller merchants whose average transaction size is relatively small and must now pay the maximum fees on all their transactions. We bring this up because it is these unintended consequences that we would like the Federal Reserve to consider in relation to this rule change. This rule will effectively increase the cost of providing debit card services to credit union members. Credit unions are already operating on limited budgets due to the low interest rate environment which has reduced revenue and ROAA for credit unions. This rule will be giving merchants the power to choose how transactions are routed, and these merchants may not be as fraud conscious as our member credit unions or their members. We can expect these merchants to often go with the lowest cost option for their transaction routing needs, thus exposing our credit unions' members to a greater fraud risk, because our credit unions will never be certain which processor these merchants will choose. In effect this will hinder these credit unions' ability to provide certain popular anti -fraud features such as zero liability protection and fraud alerts. Furthermore, in giving merchants the ability to choose which debit card network their transactions go through gives those merchants some limited responsibility should fraud occur. This is of particular importance for PIN-less transactions. These PIN-less transactions can take significantly longer to resolve and represent a major member service liability for credit unions. Due to this delay, it is on credit unions to settle any potential disputes that may arise. These transactions are nearly impossible to reverse and difficult to decline when it is necessary. This rule change is operating under the authority of the Durbin Amendment, yet these transactions were still rare when the Durbin Amendment was passed so we struggle to see how these rules can be put in place using the authority of that amendment. Our member credit unions often have these PIN-less transactions pushed onto them by core providers, who own the networks that these transactions are processed on. Credit unions are always striving to find ways to reduce fraud because it is on them to cover the losses caused by fraudulent transactions. Now the Federal Reserve is looking to take away their ability to choose the debit card network that can best protect their members. Who benefits from this proposed rule? Is it the small mom-and-pop stores that this rule is intended to benefit? Probably not, would be our answer. This rule will reduce competition among debit card networks as it will lead to bargaining with merchants, not credit unions and banks. These merchants, especially the small ones, will have far less leverage they can use to negotiate with these networks. A few very large merchants may benefit from it as they are virtually monopolies in their particular industries (examples: Amazon, Steam, Google). The large networks will be able to work out better deals with the big merchants, and once they have that competitive advantage they could begin consolidating with the smaller networks, thereby reducing competition in the debit card processing space. It is not noted in the rule change request for information as to how it would impact the competitivity of the debit card network market. There are two sides to this market, the merchants and the card issuers, and we feel that this rule is so fully in favor of merchants that it would create a one-sided system that we simply cannot support. The ramifications of this rule change are broad, impactful, and to the detriment of card issuers (credit unions and banks). It will lead to a lower quality of service to credit union members, worsen fraud in the debit card system and likely reduce competition among the large network companies. We ask that the Federal Reserve drop this proposed rule in its entirety, and if some sort of rule is truly necessary, then we ask that the Fed take a closer look at which parties will be impacted by these changes. Thank you for considering our comments on this matter. As always, LSCU is