



August 2, 2021

Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

RE: Comment on the Proposed Amendment to Regulation II (Debit Card Interchange Fees and Routing) to Clarify the Prohibition on Network Exclusivity.

We write respectfully to oppose the proposed rulemaking which would amend Regulation II by mandating that: (a) debit card issuers should enable, and merchants should be able to choose from, at least two unaffiliated networks for card-not-present transactions, making card-not-present transactions *a particular type of transaction* under Regulation II's existing prohibition on network exclusivity; and (b) debit card issuers may satisfy the prohibition on network exclusivity *only if*, for every particular type of transaction (as well as every 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.

In short, the proposed rulemaking is unnecessary and would introduce new burdens upon community bank debit card issuers, such as Coastal Community Bank, which would ultimately reduce the availability, and increase the cost, of banking services to consumers. We explain our opinions in detail below.

Since 1997 Coastal Community Bank has delivered a full range of banking services to small and medium-sized businesses, professionals, and individuals throughout the greater Puget Sound area through its 15 full-service branches which exist across Snohomish, Island, and King Counties, the Internet, and its mobile banking application. As a leading bank partner to a range of fintech providers of innovative, low-cost banking services to consumers, Coastal understands first-hand how important debit card functionality is to these consumers. Additionally, Coastal is aware of the importance of interchange revenue to both community banks and their fintech partners in providing a commercially viable basis on which to provide low- or no-cost banking services to consumers.

Coastal is ultimately concerned about two major aspects of the Federal Reserve's proposed changes to Regulation II's network exclusivity provisions and their impact on both issuers and consumers alike.

First, expressly extending Regulation II's two-network routing requirement to card-not-present transactions would effectively require all issuers to enable PINless debit functionality for internet and other card-not-present transactions. While Coastal appreciates the importance of routing choice to merchants, available technologies for card-not-present transactions are continuing to evolve and mature. Introducing such a mandate at this time would effectively require issuers to enable new routing choices for these transactions before they are able to assess and affirm that these choices are safe and secure, to appropriately mitigate fraud and other risks, and to ensure that they are commercially viable within the business model by which the underlying debit card is offered. We thus urge the Board not to proceed with its proposed change to deem card-not-present transactions as a "specific type of transaction" to which Regulation II's two-network requirement applies.

As the Federal Reserve is aware, certain types of transactions present higher risks due to fraud or data security reasons. Coastal urges the Federal Reserve to preserve the ability of banks to prohibit specific types of merchants or individual merchants that present unacceptable risks (such as merchants that have unsound financial practices or that have a history of engaging in high risk or fraudulent activities.) The Federal Reserve should ensure such fraud and risk mitigation policies would not render an issuer ineligible for satisfying Reg II requirements as long as the issuer has enabled two unaffiliated networks on their debit cards for card-present and for card-not-present transactions.

Second, the Proposal would introduce a new standard of issuer responsibility for routing of debit transactions which issuers cannot and should not be expected to meet. Although the proposal is framed as mere “clarification,” in practice, this proposal would, for the very first time, require that community bank issuers, like Coastal, be responsible for guaranteeing all merchants across all geographies and transactions are able to route transactions in at least two ways.

This would fundamentally confuse the issuers’ responsibility for ensuring that at least two unaffiliated networks are enabled on its debit cards, with merchants’ own responsibility to support the range of routing choices that may be presented to it in the context of different issuers and different debit cards. Issuers are in no position to identify and monitor all merchants’ routing configurations, let alone guarantee that its debit cards can provide at least two routing options for every single one of those merchant routing configurations.

An additional concern is that issuers could be put at risk solely because of actions taken by third parties involved in a particular transaction. For example, merchants may place issuers at risk of non-compliance if a retailer decided to stop accepting debit cards affiliated with a PIN debit network, or, if a card brand network acquired a regional PIN debit network. These, and similar, scenarios would push all issuers that have said regional network as the secondary, unaffiliated network into the realm of non-compliance. This would place tremendous burden, operationally, on issuers and would require sufficient time to address.

Coastal encourages the Federal Reserve to, at the least, issue further clarification to address these scenarios. Ultimately, rather than clarify matters, the Proposal’s new issuer responsibility mandate would introduce a heavy compliance burden that no bank - and certainly no community bank – would be in a position to meet. Thus, we respectfully urge the Board not to proceed with its proposed changes to issuer responsibility for debit card routing choice at this time.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric Sprink', is written over a light blue horizontal line.

Eric Sprink  
President & CEO of Coastal Community Bank