Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

Comment ID: 158852

From: KEMBA Financial Credit Union, Gretchen Bartholomew

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Subject: 1818(AG67) Debit Card Interchange Fees and Routing

Comments:

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Via e-mail regs .comments@federalreserve.gov

RE: Docket Number R-1818, RIN 7100-AF, Debit Card Interchange Fees and Routing; Comment Letter

Dear Secretary Misback,

KEMBA Financial Credit Union is a $2 billion state-chartered credit union, headquartered in Columbus, Ohio. Our original branch opened inside the Kroger Bakery in the downtown area servicing Kroger associates. Today, we maintain twelve (12) full-service branches serving 129,645 members in Franklin, Delaware, Madison, Logan, Fairfield, Licking, and Union counties in the state of Ohio. On behalf of KEMBA Financial Credit Union and our members, we would like to thank you for the opportunity to submit comments to the Board of Governors of the Federal Reserve (the Board) on the Notice of Proposal Rulemaking regarding changes to Regulation II; Debit Card Interchange Fees and Routing.

As an exempt institution (due to being under $10 Billion in Assets) under the Proposed Rulemaking, we still want to voice our concern, as we believe these proposed changes to the interchange fee cap, if enacted, would indeed impact our credit union. CUNA and AACUL released a study in July 2023 showing that government-mandated interchange price caps disproportionately harm local, community financial institutions. It will change the framework of the interchange fee structure which will have a rippled outcome affecting all financial institutions. KEMBA Financial Credit Union is strongly opposed to the proposed changes to Regulation II concerning debit card interchange fees. As a credit union committed to serving our community, we believe these changes will adversely impact not only our operations but also our members who rely on us for affordable and secure financial services.
Impact on Revenue and Services: The proposed reduction in interchange fees, specifically the decrease in the base component from 21.0 cents to 14.4 cents and the ad valorem component, will significantly reduce our non-interest income. This income is crucial for sustaining various low-cost and free services that we offer to our members, many of whom belong to underserved communities. A reduction in this revenue stream may force us to reconsider the affordability of these services, directly impacting our members; financial well-being.

Operational Challenges for Smaller Institutions: We are concerned about the costs of operating a debit card program if this cap adjustment is imposed. While the Federal Reserve Board’s proposal is based on data from large debit card issuers, it does not adequately consider the unique cost structures and operational challenges faced by smaller institutions like ours. We would not be able to recover our card issuance costs, given the amount of investment and ongoing costs required for card fraud technology, dispute processing and resolution of fraud and non-fraud claims, risk mitigation, core and digital banking debit card technology, plastic and digital issuance, cardholder call center support, and cybersecurity. Our fraud expenses alone increased by 57% and card processing costs by 23% YOY. All of these costs are necessary in order to operate as a debit card issuer in a safe and sound manner.

We believe that credit unions may be forced to operate debit cards at losses, which is unsustainable for our business, or we may be forced to pass costs through to our members with other forms of pricing adjustments. This would make banking products more expensive for the underserved consumer.

Potential Increase in Member Fees: As stated above, to compensate for the lost revenue, credit unions might have no choice but to increase fees or introduce new charges for services that are currently free or low-cost. This shift would directly affect our members, many of whom choose credit unions for the more favorable fee structures compared to traditional banks.

Inhibiting Competition and Choice in Financial Services: Credit Unions play a vital role in providing competition to larger banks, offering consumers more choices for their banking needs at affordable rates to ensure financial stability and wellbeing. Lower interchange fees could disproportionately affect smaller institutions like credit unions, potentially reducing the competitive landscape in the financial services industry.

Detrimental to Financial Inclusion Efforts: Credit unions are known for their role in promoting financial inclusion, especially in communities underserved by traditional banking institutions. The proposed changes could impede our ability to reach and serve these communities effectively by offering equitable yield products, lower loan rates, minimal fees, and security features, ultimately undermining our mission and efforts towards greater financial inclusion.

Reducing debit interchange income at a time when credit unions have been faced with the challenges of an uncertain economic environment is also a concern for earnings and capital. Additionally, adjusting the cap automatically bi-annually in the future does not provide our industry with the ability to provide our voice on adjustments that directly have an impact on our institution. This automatic approach does not hold accountability to ensuring that the analysis used to determine the adjustment is based on accurate, current data.

Furthermore, the next automatic adjustment anticipated in 2025 places grave concern on what the interchange income will be for a non-for-profit debit card issuer in an environment where our debit card expenses are rapidly increasing. Not to mention that there is also the risk that merchants will not pass the saving on to the consumer which was evident in the initial wave of regulation changes.

While we understand the Board's intent to keep interchange fees reasonable and proportional, it is critical to consider the broader impact on smaller financial institutions like credit unions and, by extension, on the communities we serve. We urge the board to reconsider these proposed changes and engage in further dialogue with representatives of credit unions to find a more sustainable approach that protects the interests of all stakeholders, especially those individuals in the communities we serve and provide financial stability and protection.

Thank you for the opportunity to provide our comments and for your consideration of our views on this crucial matter.

Sincerely,

Gretchen Bartholomew
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