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

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From: University of Kansas School of Business, Levi A. Russell

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Your comment: My name is Levi Russell, and I am an associate teaching professor at the University of Kansas School of Business. I am writing to voice my opposition to the proposed rule to implement further price controls on interchange fees on debit card transactions. In a little more than a decade, since the first price control on interchange fees on debit card transactions was passed by Congress, the results have been precisely the opposite of what the amendment's proponents claimed. Enacting another round of price controls that are more stringent than the current ones is not only a mistake; it is an example of doing the same thing repeatedly and hoping for a different result. My primary concern over this rule centers on its impact on consumers, particularly those who are "underbanked" and on small banks and lenders. In 2021, the Federal Reserve found that 13% of all Americans are underbanked, while 5% do not even have a bank account.(1) The imposition of the Durbin Amendment, which initiated this first iteration of price controls exacerbated this problem and will undoubtedly compound if this rule goes into effect. Any government action that drives up costs will also increase the number of Americans who opt out of the banking system. One-third of households without bank accounts cite high fees as a reason, the New York Federal Reserve Bank found.(2) The Journal on Financial Intermediation found the imposition of price controls on interchange fees forced 90% of financial institutions to raise fees on customers.(3) While consumers faced higher fees, the retail industry had an economic boom. According to a recent article in the Journal of Competition Law and Economics, US merchants saved an estimated $7 billion annually.(4) Those fees were never passed along to consumers, despite commitments they would be. More than 90% of all retailers said they did not lower prices, and many admitted that consumer prices actually increased.(5) So many federal regulations impose fixed costs that disproportionately negatively impact small community lenders. The proposed regulation is no exception.(6) Knowing the impact of the initial round of price controls, what justifies a new and more onerous round? Evidence clearly shows that the promised benefits of the Durbin Amendment failed to materialize. In conclusion, Federal Reserve Governor Michelle Bowman was correct when she said this proposal was "unfair to many issuers and in some ways regressive in its impacts." Frankly, based on the evidence from the past decade, her statement is an understatement. This proposal is a mistake that will compound harm on the American people and should be opposed or withdrawn. Sources 1 https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm; 2 https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr973.pdf; 3 https://www.sciencedirect.com/science/article/abs/pii/S1042957318300184; 4 https://academic.oup.com/jcle/article-abstract/11/1/23/793352; 5 https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_quarterly/2014/q3/pdf/wang.pdf; 6 https://news.cuna.org/articles/122725-cuna-releases-study-on-true-impact-of-interchange-regulation