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

Description:

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Comments:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
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Your comment: Comments in Opposition to Federal Reserve Regulation II Rule by Assistant Professor of Economics, Danielle Zanzalari As a professor of economics, I often marvel at how bad ideas don't go away in Washington D.C., but instead get implemented and reimplemented repeatedly. That is precisely what is being proposed by the Federal Reserve through the reconsideration of Regulation II. The rule would impose tighter price controls on interchange fees for debit card transactions, despite a decade of evidence showing the first round of price controls was a failure. In 2010, Congress attached to the famed Dodd-Frank Financial Reform Bill an amendment authored by Sen. Dick Durbin (D-IL) limiting transaction fees ("swipe fees") imposed on merchants by debit card companies. The Durbin Amendment directed the Federal Reserve Board to regulate debit card interchange fees so that they are "reasonable and proportional to the cost incurred by the issuer with respect to the transaction." The following year, the Federal Reserve issued a final rule imposing a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction of 22 cents per transaction. As with any government-imposed price control, there are negative unintended consequences that occurred. After the implementation of the Durbin Amendment, consumers found that overall costs increased and consumers lost between $22 and $25 billion according to a University of Chicago Law School report. Banks severely limited free checking accounts and many card issuers eliminated popular reward programs in an effort to cut costs. A survey from 2012 found that almost every checking account fee increased, maintenance fees were increased, and ATM service fees were higher. Also, it is worth mentioning that these costs are not borne uniformly. Low-income consumers are the most affected as they are the ones who struggle to meet account balance minimums. Further, the promised savings that would be "passed along" to consumers by retailers lowering prices never materialized. The Richmond Federal Reserve found that nearly 99% of retailers kept prices high or even raised prices after the amendment was implemented. There are no reasons consumers or regulators should expect different results this time. The new proposal is nothing more than reimplementing a bad idea that will likely continue to increase prices for consumers that legislators are supposedly trying to help. Regulation II

was a policy failure, and this proposed rule is an example of doing the same thing and expecting a different result. The proposed rule should be withdrawn or defeated. Links: 1. Final rule LA Times article- https://www.latimes.com/business/la-xpm-2012-sep-24-la-fi-mo-free-checking-bank-fees-bankrate-20120924-story.html; 2. 2012 survey-
https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?
article=1651&context=law_and_economics; 3. Richmond Fed Reserve study-
https://www.richmondfed.org/publications/research/economic_quarterly/2014/q3/wang.