

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

Description:

---

Comment ID: 158375

From: Kish Bank, Keith A. Crissman

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

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

---

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Sir or Madam,

Thank you for opportunity to share my concerns regarding the Federal Reserve's initiative to revise Regulation II and reduce debit interchange fees by 30%. Although I recently joined Kish Bank as an executive leader, I have been very aware and concerned about this issue since 2010. Kish's contributions to local economic sustainability and intentional community focus over the past 100+ years has helped fuel a local economy that other financial institutions have left behind. As a result, Kish Bank, now serving over 35,000 clients with a robust presence in five counties, remains a key player in community development by supporting various local initiatives.

Our community commitment extends to providing comprehensive financial services to diverse groups, including those who may be economically disadvantaged. The proposed fee reduction and biennial review threaten this commitment, potentially impacting our ability to offer essential services like free checking accounts integrated with costly fraud protection measures.

The claim that reducing interchange fees would benefit consumers has not materialized; instead, it has bolstered large retailers' profits. Specifically, research indicates that when debit interchange fees were capped following the passage of the Durbin Amendment, banks experienced a significant reduction in revenue from these fees. However, there was no measurable pass-through of these savings to consumers in the form of lower retail prices. In essence, the cost savings for merchants, which could potentially have been transferred to consumers, did not materialize. Instead, the reduced revenue for banks led to higher fees for consumers, as banks sought to recoup their losses by imposing higher account fees and other service charges. This means that while merchants, particularly large retail corporations, benefited from lower card processing costs, these savings did not necessarily translate into lower prices for consumers. As a result, the economic benefits of interchange fee reductions for consumers remain debatable.

The overall evidence points to the fact that reductions in interchange fees can boost retail profits, as merchants save on the cost of processing card payments. However, this does not directly equate to consumer benefits through lower retail prices, and it can lead to higher banking costs for consumers, which arguably offsets any potential savings at the retail level.

The detailed impact of these reductions and their implications for the banking and retail sectors can be found in the studies by the American Bankers Association, the MIT Press and the Richmond Federal Reserve. (See - The Role of Interchange Fees in Two-Sided Markets: An Empirical Investigation on Payment Cards - Valverde, Chakravorti, Fernandez, "The Review of Economics and Statistics", 2016, The Impact of the Durbin Amendment on Merchants: A Survey Study, The Federal Reserve Bank of Richmond Quarterly, 2014).

I urge the Federal Reserve to reconsider this proposal, considering the broader economic implications for community banks and their customers. A more detailed analysis is necessary before implementing

changes that could undermine the financial health of communities like those Kish Bank serves.

Thank you for your consideration.

Respectfully submitted,

Keith A. Crissman  
Executive Vice President & Chief Revenue Officer  
Kish Bank  
o: 814-325-7627  
2610 Green Tech Drive, State College, PA 16803  
MyKish.com