

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

Description:

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Comment ID: 158368

From: First American Bank & Trust Company, Sam Drennen and Rhodes McLanahan

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Comments:

NONCONFIDENTIAL // EXTERNAL

January 31, 2024

First American Bank & Trust Company

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Board of Governors of the Federal Reserve System (Board)

RE: Regulation II: Docket No. R-1818, RIN 7100-AG67

To whom it may concern,

We are writing to bring to your attention a matter of significant concern regarding the proposed changes to debit interchange regulations by the Federal Reserve Board. These changes could have a profound and negative impact on our community and the services provided by First American Bank & Trust (FABT).

Founded in 1928 by J. H. Hubert, FABT has been a pillar of our community, serving Northeast Georgia with integrity and dedication. The historic significance of our Bank Headquarters, listed on the National Register of Historic Places, reflects our commitment to preserving the heritage of Downtown Athens. Since our inception, we have strived to adapt and evolve while remaining true to our values.

FABT currently employs 115 employees who serve our communities across Northeast Georgia. We offer a range of services including mortgages, trust services, commercial and consumer loans, as well as time, demand and interest-bearing deposit accounts. Additionally, we are actively involved in serving the Hispanic and Low-Income communities through direct outreach and partnerships with public agencies.

Since the onset of COVID in 2020, we have made over 1,000 small business loans (PPP loans) with the assistance of the US Treasury Department (Small Business Administration) totaling over \$75MM in the Athens area. Additionally, we partnered with Commonwealth Athens, a local non-profit who has successfully been refinancing high-interest debt (payday and title loans) and has provided basic financial education to the recipients of those loans leading to a very high success rate with those borrowers. We have also rolled out a nationally certified Bank On account intended to serve individuals who otherwise would not qualify for a traditional checking account, allowing them access to the efficiency of payments a checking account provides. Finally, we are in the process of trying to get certified as a Community Development Financial Institution (CDFI) through the US Treasury Department (CDFI Fund) in order to provide us access to federal funds to further our mission of serving the broader Athens community.

The proposed changes to debit interchange regulations in Regulation II pose a significant threat to our ability to continue serving our community effectively. Debit card interchange supports affordable

checking accounts, including the BankOn Account, allowing financial institutions to offer these accounts with limited or no fees. First American Bank has been providing BankOn Accounts from their inception, resulting in the improvement of the financial health of individuals and families throughout our communities. As BankOn accounts have very low monthly and almost no ancillary fees, these accounts are largely supported through debit card activity; which in itself is an indication that customers are enjoying the benefits of being banked and no longer needing to pay high fees for products like money orders or check cashing services.

If instituted, Regulation II will threaten the banking industry's collective progress in bringing customers into safe, affordable, regulated accounts. Among the proposed changes is a nearly 30% decrease in the debit interchange fees covered banks receive for each debit card transaction and the automatic biennial reviews of these fee caps without allowing for public input each time. These proposals will diminish the economic viability of debit card products and could ultimately harm consumers by limiting their access to safe and affordable banking options. It's essential that we advocate for policies that support financial inclusion and protect the interests of everyday people.

Furthermore, the proposal's calculations do not take into account the increase in debit card-related expenses that further threaten the viability of affordable checking accounts. These expenses include fraud mitigation fees, VISA quarterly assessments, contactless card production and delivery costs, insufficient funds losses, transaction monitoring costs, debit card dispute management and fraud charge-offs/losses. Furthermore, the recent routing rule, while purportedly aimed at enhancing efficiency, has created an imbalance that favors merchants and core processors over community banks. One concerning aspect is the growing trend among core processors, who also own debit networks, to compel banks to exclusively utilize their proprietary networks. This practice ties essential banking software usage to the procurement of unrelated card processing services, limiting banks' freedom of choice among multiple unaffiliated networks. Put more succinctly, this proposal will ultimately lead to a monopolized industry. For these reasons, while the proposed regulation technically does not apply to banks with assets under \$10B, the unintended consequence of the legislation will ultimately have a significant, negative impact to FABT's bottom line. Furthermore, in 2014, the Federal Reserve Bank of Richmond revealed that after the implementation of the Durbin Amendment and Regulation II, most merchants maintained their existing pricing strategies, with 21% even raising their prices. <sup>1</sup>

As you are aware, community banks like ours form the fabric of local economies across the entire country; therefore, we must address these issues urgently to ensure fair and equitable practices within the banking industry, preserve the integrity of community banks and safeguard the interests of consumers. We strongly urge the Federal Reserve Board to reconsider this proposal and conduct thorough research to ensure that any changes accurately reflect the real-world impact on financial institutions and consumers.

Thank you for your attention to this matter.

Sincerely,

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<sup>1</sup> Wang, Zhu, Schwartz, Scarlett and Mitchell, Neil, "The Impact of the Durbin Amendment on Merchants: A Survey Study[https:]", (2014) Federal Reserve Bank of Richmond Economic Quarterly, Volume 100, Number 3.