KOHLER CREDIT UNION

December 11, 2023

By electronic delivery to: regs.comments@federalreserve.gov

Ann E Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

Re: Docket Number R-1818, RIN 7100-AG67

To Whom It May Concern:

Kohler Credit Union appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve (the Board) on the Notice of Proposed Rulemaking regarding changes to Regulation II establishing standards for assessing the amount of interchange fees received by debit card issuers.

Who We Are

Kohler Credit Union is a $614 million asset community-chartered credit union, headquartered in Sheboygan, Wisconsin. Kohler Credit Union maintains ten (10) full-service branches serving approximately 50,300 members in Sheboygan, Calumet, Manitowoc, Ozaukee, Washington, Fond du Lac, Milwaukee, and Waukesha Counties of Wisconsin.

Our Feedback on Proposal

The Board implemented Regulation II pursuant to the Durbin Amendment back in 2011. Data studied and collected by the Board is from large debit card issuers and fails to account for the trickle-down effect to small issuers and the harm it has caused us to also comply with the unintentional consequences of the passed-on costs to our institutions due to our having to rely on the larger issuers. Large, or "covered", issuers are defined in the proposal as issuers with consolidated assets of $10 billion or more.

First, during the Board's meeting, they claimed that the small issuer exemption was successful, but the Board's own data[1] contradicts this. Since 2011, interchange fees for exempt dual-message transactions increased from 53 cents in 2011 to 64 cents in 2023. If that fee matched inflation trends, those fees should be roughly 73 cents. As for single-message transactions, they have dropped outright from 32 cents in 2011 to 27 cents in 2023. The exemption is a failure, and the data shows that.

This is a proposal to make a dramatic reduction in interchange fees for non-exempt issuers and is a proposed solution to a non-problem. In 2010 when the Durbin Amendment capped debit interchange fees, retail groups pushed hard for the amendment and got what they wanted. They promised lower prices for goods since they would pay less in interchange fees. That did not happen, and consumers only saw the cost of essential banking services increase and debit reward programs either slashed dramatically or disappear completely, while retailers saw historic profits.

[1] https://www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm

A study from the Government Accountability Office[2] found that “covered banks were about 35 percent less likely to offer non-interest checking accounts without monthly fees” and “researchers estimated that if the regulation had not been implemented, 65 percent of non-interest checking accounts offered by covered banks would have been free.” The report also found that the Durbin Amendment was one of the most harmful laws relating to banking access and the cost of banking.

Clearly artificial price caps on interchange fees does nothing to help consumers and does everything to help big box retailers. We have 13 years of data proving the Durbin Amendment lined the pockets of retailers at the expense of consumers.

Non-interest income is paramount to the safety and soundness of the financial system, as well as ensuring our customers/members have access to affordable banking services. As a credit union we are a cooperative owned by our members. Credit unions use non-interest income, like interchange fees, to keep the cost of banking down. We use fees to keep interest rates low and provide affordable access to credit for our members.

Mitigating fraud requires more than evaluating only a narrow subset of costs. Stop evading wholistic considerations of the funds needed to operate card programs and limit fraud in the debit payment network. Plastics and their security features, technology platforms, personnel to combat, fight, investigate and monitor fraud all have come with dramatically higher costs.

Federal Reserve Board Gov. Michelle Bowman, the only governor to vote against the proposal, reiterated many of these same points, and seems to be the only one on the Board who gets this.

In Conclusion

We believe that interchange fees are not a problem. Free enterprise should drive pricing, not government! Lowering interchange fees is crafting a solution in search of a problem and creating unknown consequences as a result. We urge the Board to drop this proposal and protect consumers, not retailers.

We appreciate the opportunity to share our thoughts. If you have questions or need further information, please feel free to contact us by telephone 920-459-2595 or by email at svandermeuse@kohlercu.com.

Sincerely,

Sue Vandermeuse

Sue Vandermeuse, CUCE, CUERME, BSACS, CCUIA
SVP Audit & Assurance

[2] https://www.gao.gov/assets/gao-22-104468.pdf