

December 19, 2023

The Honorable Jerome Powell, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington DC, 20551

RE: Federal Reserve Board's October 2023 Proposal to Reduce Debit Interchange [R-1818]

Thank you for providing me with an opportunity to submit a letter during the public comment period of the [R-1818]. I appreciate that the Board of Governors are committed to taking appropriate action based on the best interests of all key stakeholders. I have worked in the financial services industry for almost 25 years—with the bulk of my time dedicated quite intensely to debit and credit card products and associated interchange.

There is no doubt that large retailers would favor a shift in the interchange provided to institutions above \$10B in asset size. I am however left to pose one primary question, "During the original Durbin amendment and debate, it was noted that reduction in interchange fees would translate into cost savings to the end consumer. **Did that occur?**" While this was a strong selling point for adoption of that rule, I am not aware of any unbiased third-party peer reviewed research that shows that a decrease in interchange expense directly resulted in lower prices for consumers.

Subsequently, card fraud losses are at epidemic levels with financials (hardest hit are the smaller size financials that cannot benefit from economies of scale and primarily serve underserved areas in the country) spending immense amounts of money to monitor and prevent fraud losses, invest in sophisticated fraud management tools, incur fraud losses themselves, pay the costs associated to re-issue cards and manage costly disputes at the financial institution. Likewise, financial institutions are required to invest considerable sums to protect the data of the financial institution, yet we have continued to see retail breaches that impose a significant financial imposition on the financial institutions. I will suggest that part of any debit interchange discussion should be legislation holding retailers to the same data security standards and regulatory oversight as financial institutions.

When one looks at the financial landscape it is apparent that debit interchange provides a source of revenue to offset losses financials experience with up to 60% of their overall membership. I believe it would be difficult to find other types of business where 60% of the customer base is unprofitable on an annual basis. Yet, this is commonplace in the financial industry and embraced to provide reliable and accessible financial products to as many individuals as possible.

If interchange at the \$10B and above is curtailed, it will put pricing pressure on the whole ecosystem and ultimately become another "poverty tax" on those least able to afford it. Items that benefit low-income households would be among the first products up for debate and possible fees (free checking, free debit

cards, no minimum balance accounts, low dollar loans at competitive rates—to avoid predatory lenders—all will be open for discussion).

Financial institutions above \$10B have been a target for increased regulation over the past decade. Unfortunately, we are failing to address that what occurs at \$10B and above puts pricing and competitive pressure on all financials—especially member owned cooperative credit unions. This is a moment in time where we must decide what we seek to have our financial service offerings look like for the coming decade. Do we seek to be more inclusive? Do we seek to offer products as alternatives for citizens from utilizing predatory lending systems? Do we seek to open the doors of financials to serve anyone who graces the entrance? Do we seek to create an environment where financials can offer low and no cost products (even at a loss) because it is the right thing to do?

Or do we seek to lower the debit interchange for retailers which I believe will, in turn, create another tax on people of modest means? Financial institutions of all sizes have faced unprecedented headwinds the past several years. This proposed change will only accelerate changes the Federal Reserve Board purports to avoid.

Best Regards,

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