

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

Description:

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From: Douglass Leadership Institute, Garland Hunt

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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: Thank you for the opportunity to present our thoughts on Regulation II. My name is Garland Hunt, Chairman, Douglass Leadership Institute, a nonprofit that does Christian work based on the life and legacy of Frederick Douglass. We support the strength of the Black family and economic and educational opportunity for all. We recommend further review of Regulation II because we believe it would pick winners and losers; the winner being well-connected entities in corporate America; the losers being low-income Americans. In 2011, the Federal Reserve feared that imposing a strict price control on debit card swipe fees (as Congress mandated through the Dodd-Frank Act) would lead to excessive fees getting passed onto American consumers and banks imposing stricter accounts balances on their accounts. The Fed's senior economist at the time stated that, in other countries that enacted similar price caps, "many of the decreases in interchange fees [were] passed through in merchant prices or in merchant discounts." That is why the Fed ultimately decided to reject the initially proposed 12-cent debit card swipe free and replace it with a more reasonable 21-cent cap. However, even this 12-cent cap had significant affects for the most vulnerable Americans among us. A 2014 study by the Richmond Fed found that 20% of merchants surveyed reported raising prices on their customers to make up for the lost revenue the policy forced them to incur. The Wall Street Journal also reported that this price control's wrath at disproportionate rates. It found that: banks have slashed access to free checking (which has fallen from 76% to 38% of accounts since 2008), doubled monthly maintenance fees on other accounts, raised other monthly fees, and increased the mandatory minimum balance to qualify for free checking from \$109 in 2008 to \$670 last year. In addition, affected banks have almost completely eliminated rewards on debit cards, amounting to an effective 1% price increase on all goods and services for consumers who previously used these "cash back" rewards cards. All told, according to a study by the Boston Fed, banks have recouped roughly 30% of their lost interchange revenue by charging customers higher fees. All told, The Journal found that the price cap "saddled lower-income consumers with \$1 billion to \$3 billion per year in higher out-of-pocket costs; with little or no relief in the form of lower retail prices," forcing low-income Americans to either incur "hundreds of dollars in new bank fees" or get "driven out of bank accounts entirely, turning instead to check cashers, pawnbrokers and other financial providers that cater; at higher cost; to unbanked consumers." The African American community was already unbanked at significantly higher rates than the rest of the country and felt disproportionate pain from the enactment of this swipe free price control. When adjusted for inflation, the new, stricter swipe fee cap proposed in Regulation II would be higher than the 12-cent cap the Fed previously rejected in 2011 for being too draconian. For this reason, we ask that you consider doing the same to Regulation II.