

Texell Credit Union
17 South 1st Street
Temple, TX 76503

February 9, 2024

Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Subject: Comment on Proposed Revisions to Regulation II Interchange Fee Cap

Dear Chair Powell,

We write to express strong opposition to the proposed revisions to Regulation II interchange fee cap. As a community-focused financial institution committed to fostering sustainable growth and financial accessibility for our members, we are deeply concerned about the potential negative impact of the proposed revisions on the operational capabilities and competitive landscape for smaller financial institutions, including Texell Credit Union.

The updates to the components of the interchange fee cap do not support and align with the evolving landscape of debit card transactions and associated costs. The adjustments to the base component, ad valorem component, and fraud-prevention adjustment do not accurately reflect the changing dynamics within the industry, particularly in response to shifts in transaction-processing costs, issuer fraud losses, and fraud-prevention expenses. These revisions present several formidable challenges to the operational integrity and strategic aspirations of smaller financial institutions as follows:

1. Exempt Issuers Debit Interchange Trends:

The data indicates that exempt issuers have experienced a decrease in debit interchange since the original implementation of the Durbin Amendment, both on a fee as a percentage of payment volume basis and on an inflation-adjusted per-transaction basis.

Texell Credit Union has recognized a decrease of approximately \$5.5 million of interchange income proving that an asset threshold does not provide a safe harbor as intended. Debit interchange is critical in covering the essential costs of our debit program, including transaction processing, risk and fraud management, cardholder servicing, and card production and delivery. Additionally, we highlight how debit interchange is integral to offering competitive and consumer-friendly debit products, such as low account management fees and reduced NSF/overdraft fees.

2. Market Pressure on the Consumer:

A reduction in non-exempt interchange will lead to an increase in the exempt interchange share in merchants' overall cost of acceptance. As a result, there may be market pressure to further reduce exempt interchange, potentially influencing the consumer segments served by financial institutions and increasing the costs of debit programs borne by the cardholder.

Texell Credit Union is committed to our mission of serving our members and ensuring the stability and viability of our financial offerings. However, a further decrease in interchange revenue may compel us to consider measures that could increase costs for the products and services offered to our nearly 52,000 members.

3. Accelerated Consolidation:

Industry experts and trade associations have highlighted how Regulation II interchange fee caps have accelerated consolidation in the financial services sector. The anticipated reduction in interchange fees could exacerbate this trend, potentially impacting the operational autonomy and growth trajectory of smaller financial institutions.

Texell Credit Union is a member of the Central Texas Credit Union Chapter and feels very strongly about the long-term viability of our neighboring credit unions, each serving specific membership groups. The impact of the proposed revisions on sustainability and consolidation of smaller financial institutions must be carefully considered.

We urge the Board of Governors of the Federal Reserve System to carefully evaluate our concerns and the broader implications of the proposed revisions on debit card profitability, consumer impact, growth constraints, and accelerated consolidation of smaller financial institutions. We appreciate the opportunity to provide our perspective on this critical matter and trust that our concerns will be thoughtfully considered as part of the regulatory process.

Sincerely,

Tony Hale
Chief Executive Officer
Texell Credit Union