Members 1st
Credit Union

March 14, 2024

Colleen Daly
Federal Reserve Bank of San Francisco
101 Market St
San Francisco, CA 94015

Dear President Daly:

I am writing on behalf of Members 1st Credit Union to express our deep concern regarding the proposed changes to the debit card interchange fees by the Board of Governors of the Federal Reserve System (Board). I believe that these changes could have significant repercussions for credit unions, particularly impacting the financial well-being of our members.

As a leader in the credit union industry, I respectfully request the Federal Reserve Bank of San Francisco to oppose the Board's proposal. Below are our specific comments and concerns for your consideration.

Who We Are:
Members 1st Credit Union is a $324 million asset credit union, headquartered in Redding, California. We serve approximately 24,000 members in four counties in Northern California, centered around Redding and Chico.

Specific Comments Pertaining to the Proposed Rule:
While Regulation II initially exempted financial institutions with less than $10 billion in assets, the challenges imposed by Regulation II and the Durbin Amendment have adversely affected credit unions, particularly smaller financial institutions like ours. The decrease in the base component from 21 cents to 14.4 cents and the ad valorem component from 5 basis points to 4 basis points would substantially reduce our non-interest income. These funds are crucial for operating our debit card program securely, covering areas such as card fraud technology, dispute resolution, risk mitigation, core and online banking debit card technology, plastic and digital issuance, and cybersecurity.

Moreover, the proposal to automatically update the interchange fee cap every two years without the ability to comment on adjustments is concerning. This approach lacks transparency and does not ensure the accuracy of the data used by the Board for adjustments.

The proposed changes would not only make it expensive for our credit union to operate the debit card program but also negatively affect consumers, particularly those in underserved communities. Credit unions, being nonprofit financial cooperatives, have traditionally worked to minimize fees, particularly for consumers of modest means. Lowering interchange fees may result in reduced access to financial services and higher costs for basic services, impacting the most financially vulnerable consumers.

While the proposed rule marginally increases the amount credit unions can charge for fraud prevention from 1 cent to 1.3 cents for regulated transactions, these measures will not be sufficient to cover larger-scale fraud mitigation and prevention strategies. Fraud rates have more than doubled in the last 10 years. Members 1st is constantly assisting members with attempted fraud and card losses. Every credit union has witnessed significant increases in fraud rates, and the reduction in revenue from interchange fees would impede our ability to invest in innovative fraud prevention technologies. We offer incredible services to our members at no cost and we still see members struggling, this change will not assist our members. Merchants did not return the savings to consumers, this change will only hurt consumers more as free services will decline.

Conclusion:
I appreciate your consideration of our views on this critical matter. The proposed modifications have the potential to undermine the vital role credit unions play in providing affordable and accessible financial solutions to our members. I urge you to consider a fair and balanced solution that addresses the unique challenges faced by credit unions in today's financial landscape.

Sincerely,

Caroline Redmann
CEO of Members 1st Credit Union