

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

Description:

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From: Relevate LLC, Jason W. Ross

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Comments:

NONCONFIDENTIAL // EXTERNAL

Dr. Patrick T. Harker

President

Federal Reserve Bank of Philadelphia

Ten Independence Mall

Philadelphia, PA 19106

Dear Dr. Harker:

As someone who has worked in the Pennsylvania banking industry for 28 years, I'm writing today to express my deep concern with a new proposed rule from the U.S. Federal Reserve that would further lower the cap on debit card interchange fee transactions. While lowering the cap on debit card interchange fees may appear like good policy on face value, I have seen firsthand how this policy has harmful effects on the very people it is meant to serve. Further, I strongly believe that Pennsylvania consumers and small businesses have the most to lose from this wrongheaded policy.

Last fall, the Fed [<https://www.federalreserve.gov/aboutthefed/boardmeetings/reg-ii-memo-20231025.pdf>] proposed to drastically reduce the current cap on debit card transactions from 21 cents to just 14.4 cents - a smaller amount in real, inflation-adjusted dollars than a proposal rejected in 2011. This policy change will set off a series of events that will ultimately lead to an uptick in unbanked Pennsylvanians.

It's important to understand how this policy has failed in the past to understand how it threatens everyday Pennsylvanians' futures. As you are aware, when Congress passed the Dodd-Frank Act in 2010, the bill included a section known as the Durbin Amendment, or [<https://www.federalreserve.gov/paymentsystems/regii-about.htm>] Regulation II, which gave the Federal Reserve the power to set a cap on debit card transaction interchange fees and mandated routing requirements for all debit card payment networks.

This amendment was intended to serve merchants and consumers, but numerous studies have shown the widespread harmful impacts of the Durbin Amendment. This includes a massive increase in the [https://www.law.gmu.edu/assets/files/publications/working_papers/1418.pdf] unbanked population in the United States, as well as the [<https://www.forbes.com/sites/norbertmichel/2023/06/13/durbin-remains-persistent--and-misguided/?sh=5e9f04521f5c>] end to popular and widely utilized debit card rewards programs and many no-fee checking accounts. What's more, a 2015 economic [https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_brief/2015/pdf/eb_15-12.pdf] survey by the Federal Reserve Bank of Richmond found little evidence that merchants passed along their cost savings to consumers.

By doubling down on this failed policy, we will threaten consumers and small businesses, particularly low-and-middle income consumers who [https://www.bostonfed.org/-/media/Documents/cb/PDF/Zabek_Levinger_credit_debit.pdf] rely on debit cards more than credit cards, according to recent studies. It's also important to consider that debit cards benefit businesses

because they are safer, faster, and less expensive to process than cash, which can [https://www.businesswire.com/news/home/20180130005244/en/New-Research-from-IHL-Group-Shows-Retailers%E2%80%99-Cash-handling-Costs-Range-from-4.7-to-15.3-Depending-on-Retail-Segment] cost as much as 15.3% and averages more than 9% due to labor, theft, and handling costs. I would ask that you urge the Federal Reserve to reconsider moving forward with this policy that has not worked in the past and will not work in the future.

Thank you in advance for your consideration of my concerns and thank you for all that you do to support Pennsylvania consumers and small businesses.

Best,
Jason W. Ross, CPA
Natrona Heights, Pennsylvania
Jason W. Ross, CPA
Relevate LLC
Founder and President
P: 412-445-2581
E: jwross@relevaltc.com
www.RelevateLLC.com
NMLS #1499805