INDEPENDENT
BANK

April 1, 2024

Ms. Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

BY ELECTRONIC MAIL

Re: NPRM on Debit Card Interchange Fees and Routing (Regulation II), Docket No. R-1818

Dear Ms. Misback:

As a community financial institution, we have significant concerns regarding the Federal Reserve's proposal to reduce the regulated interchange cap under Regulation II, and we respectfully request that the proposal, in its current form, be withdrawn.

While the regulation is aimed at larger banks, we know that the Federal Reserve understands that Regulation II impacts each financial institution in the ecosystem, even those of us with asset sizes under $10 billion. In such an ecosystem, when government regulation dictates pricing caps for the largest institutions, the price offered to those outside the cap but within that same ecosystem is equally impacted.

As background, we understand that from 2011-2022, per transaction debit interchange for smaller or "exempt" financial institutions fell by 35%. In concert with the recently finalized routing rules that apply to each bank in the marketplace regardless of size, it is reasonable to anticipate a similar, further reduction in interchange revenue for "exempt" community financial institutions, such as our own. Continuing to reduce the revenue relied upon by community financial institutions to provide low- or no-cost basic banking services, such as the BankOn product, may very likely lead to a reduction in institutions willing to offer such products and services. The reintroduction or increase in minimum balance requirements and/or monthly maintenance fees are likely outgrowths of this proposal, which would appear to be unintended and negative consequences as it relates to financial institutions efforts to reduce the numbers of unbanked and underbanked in our respective markets. As far as we can see, the proposal poses no consumer benefit, and will instead only be a benefit to merchants.

We understand that the debit card interchange proposal is not required by Dodd Frank. It is, rather, a policy decision that must be justified based upon statutory authority and the boundaries of the regulatory process. The proposal is based on an outdated and incomplete 2021 data set based upon "allowable costs" which exclude emerging costs such as tokenization and maintenance, EMV technology, cardholder authentication costs, plastics and chips increased costs, and the 2023 changes to debit routing. As a result of our trade associations study, it is estimated that hundreds of mid-size and smaller banks (34% of covered issuers) will not even be able to cover their debit card transaction costs. Further exacerbating these issues, the proposal includes an automatic, biennial adjustment of the cap using these same outdated definitions, data sets, and resultant calculations, and inappropriately excludes these adjustments from the notice and comment requirements.

We understand that the comment period now ends on May 12. We suggest that at a minimum, a further extension or withdrawal of the rule be considered to allow time for the planned update to the data base used for the analysis to support this change. The outdated data from 2021 is referenced but, by early May, survey data from 2023 will be available to the Federal Reserve to use in analysis, albeit without a statistically significant sample incorporating the routing rule that took effect July 1, 2023.

Given the number of concerns outlined, we respectfully suggest that the rule be withdrawn at this time, allowing time to analyze the May 2024 survey and address the other issues raised by the banking industry.

Sincerely,

William B. Kessel, President and Chief Executive Officer

Stefanie Kimball, Executive Vice President and Chief Risk Officer

Russ Daniel, Executive Vice President Retail Banking and Operations