April 16, 2024

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

RE: Notice of proposed rulemaking on Regulation II; Docket No. R-1818, RI 7100-AG67

Dear Ms. Misback:

I am writing on behalf of AMOCO FCU to comment on the Notice of Proposed Rulemaking to amend Regulation II ("NPRM") issued by the Board of Governors of the Federal Reserve System ("Board"). The Board should not amend Regulation II as proposed in the NPRM because it will have a negative effect on all financial institutions and consumers.

We are a Federal Credit Union serving the Galveston County area in Texas. We are submitting these comments to the Board to make it aware of the harm that Regulation II has caused since it was implemented and the additional harm that will result from enacting the NPRM.

The Board proposes to decrease the interchange fee cap under Regulation II by approximately 30%. We know from experience the $10 billion exemption is hollow and the proposal will worsen AMOCO FCU's financial position and harm our members, comparable to our experience following the introduction of Regulation II in 2011. Regulation II effectively reduced the average interchange we earn on debit card transactions by over 33%. Large merchants caused this, with significant leverage, and their ability to extract below-the-cap interchange rates from networks for all transactions irrespective of whether the issuer of a debit card is exempt from Regulation II. Because billions of transactions occur at these merchants, our financial institution experienced a reduction in revenue due to the lower interchange. As a result, AMOCO FCU had to take action to compensate for the effect of Regulation II. We no longer considered a Rewards program a viable option for debit cards.

As Governor Bowman has cautioned, finalizing the NPRM will harm us and other exempt financial institutions even though it does not directly target our business. As a result, we will have to take action to mitigate the detrimental effect on AMOCO FCU and our members. This will jeopardize our ability to continue offering our free checking account with no required minimum balance to all members.

Finally, the NPRM comes at a time when AMOCO FCU is still trying to adjust to the most recent amendment to Regulation II, which went into effect on July 1, 2023. That amendment did not directly affect the interchange fee cap, but it did impose additional routing restrictions on debit card issuers, including institutions such as ours, that are exempt from the interchange fee cap. As the Board's own data shows, average interchange per exempt debit transaction is much lower for single-message networks than for dual-message networks. The most recent amendment forced us to enable a PINless single-message network for ecommerce transactions, reducing our revenue. This will ensure further erosion of our average interchange rate due to the fact a significant percentage of our debit card volume is derived from ecommerce. Although the effects of the July 1, 2023, amendments are still being implemented by acquirers, we expect it will reduce our revenue and urge the Board to pause implementation of the pending proposal to ensure small financial institutions are not disproportionately harmed. Additionally, PINless networks do not have the security features of other networks, and therefore we are also likely to face increased costs from fraud losses. If the Board also finalizes the NPRM, it will negatively impact our financial institution and members, which may imperil access to basic financial services and drive further consolidation in the industry. None of these predictable outcomes will benefit consumers or promote the safety and soundness of our financial system.

If you have any questions regarding our comments, please contact the me at 409-941-8655 or dmcdermott@amocofcu.org.

Sincerely,

Darby McDermott, EVP of Operations

AMOCO FCU