



April 24, 2024

Michelle W. Bowman
Federal Reserve Board of Governors
20th Street and Constitution Avenue NW
Washington, DC 20551

Docket number: R-1818 and RIN 7100-AF

Dear Michelle W. Bowman,

I am writing on behalf of Lookout Federal Credit Union to express our strong opposition and deep concern regarding the proposed rule changes from the Federal Reserve Board regarding interchange fee caps (Regulation II; Docket No. R1818) for debit cards. We believe the implementation of such a cap would have severe and detrimental implications for the financial stability of credit unions such as mine, and our ability to serve our 27,000 members.

While the current proposal is focused on institutions with over \$10B in assets, we believe the proposed interchange cap would impact organizations of all sizes. The impact ultimately hinders our ability to cover costs associated with providing secure and efficient electronic payment services, which are also mandated. While we understand the Federal Reserve's intention to create a fair and transparent framework for debit card interchange fees and routing, we believe that certain aspects of the proposed amendments will have detrimental effects on credit unions, particularly smaller institutions like ours.

Unlike large financial institutions which have more bargaining power with card networks and issuers, which allows them to negotiate higher interchange fees, smaller credit unions do not have that type of bargaining power. When caps for larger institutions are lowered the benchmark is lower for negotiation which has a direct impact on the bottom line for all institutions, but a significant impact on smaller institutions such as mine.

Credit unions are already required to carry additional unaffiliated networks in addition to Visa or Mastercard. By being forced to engage with these additional networks, which already have decreased interchange fees, costs to the credit union have increased for

the engagement itself as well as the due diligence necessary to ensure the networks provide safe and secure services. This is on top of already rising fraud prevention and monitoring costs. Further, large merchants such as Walmart and Amazon have negotiating power to reduce their interchange fees directly with card networks. This has driven down the interchange income for financial institutions but has not resulted in lower prices or any benefit to consumers. Only the merchant has benefited in this scenario.

Credit unions, unlike larger financial institutions, operate on a not-for-profit basis and focus on returning value to our members in the form of enhanced products and services as well as investments in our communities, many of which qualify as low income designated. This means these communities have limited access to financial services. Additional changes to debit interchange could have a significant impact on a credit union's ability to continue providing products and services to these already disadvantaged members. Further, to offset the lost revenue generated by interchange, and the rising costs for fraud prevention, credit unions will be forced to look for other methods to impact their bottom lines which could have an even larger detrimental impact to credit union members nationwide.

Additionally, we are concerned that the proposed amendments could undermine the principle of cooperative ownership and democratic control that defines the credit union movement. By imposing one-size-fits-all regulations that favor the interests of large financial institutions, the amendments threaten to erode the autonomy and independence of credit unions, thereby limiting our ability to fulfill our mission of empowering our members and supporting our communities.

In light of these concerns, we respectfully urge the Federal Reserve Board of Governors to reconsider the proposed amendments to Regulation II and to engage in meaningful dialogue with representatives from the credit union industry, especially the mid to small sized credit unions, to develop regulatory solutions that are fair, proportionate, and conducive to the long-term sustainability of credit unions and the communities they serve.

Thank you for considering our perspective on this matter. We remain committed to working collaboratively with the Federal Reserve and other regulatory authorities to ensure that the interests of credit unions and their members are duly represented and protected.

Sincerely,

A handwritten signature in cursive script that reads "Amy Ciciliot".

Amy Ciciliot
Chief Operating Officer
Lookout Credit Union