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May 03, 2024

SUBMITTED VIA ELECTRONIC MAIL

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

Re: Comment Letter on Docket No. R–1818, RIN 7100–AG67
Debit Card Interchange Fees and Routing

Dear Secretary Misback:

I write this letter to share my concerns with the proposed changes to Regulation II. As a regional community bank based in Oregon, Umpqua Bank serves the communities in which we live and operate. From individuals and families to farms and small businesses, meeting the financial needs of our customers and communities is the foundation of our work. Below, I share matters that the Board of Governors (the "Board") should consider and urge the Board to withdraw this rulemaking which is harmful to consumers and not required by law.

This proposed rule would directly harm consumers, to the benefit of large retailers. This proposal is expected to raise the cost of basic banking services for individuals, families, and small businesses. The Government Accountability Office[1] and the Federal Reserve's own economists have observed that "banks subject to the [2011 Regulation II debit card interchange price] cap raised checking account prices by decreasing the availability of free accounts, raising monthly fees, and increasing minimum balance requirements." [2] The proposed rule would double down on these effects by further reducing interchange rates and shifting the cost of card acceptance in a secure and convenient payment system from the merchants who most benefit, to consumers.

This proposed rule would disproportionately harm low income and hard to reach consumers. Umpqua Bank is proud to offer a Bank On certified checking account. This low-cost, check-free account relies on interchange income to provide safe, dependable, and affordable access to banking services for those who may not otherwise be able to afford them and those whose previous experience with the banking system excludes them from eligibility for traditional products. The proposed changes to Regulation II and the resultant reduction in interchange rates threaten our ability to provide the affordable products that our customers have come to expect. The rule is likely to disproportionately impact low-income consumers and make it more difficult to reach unbanked and underbanked members of our community. This conclusion is supported by researchers from Georgetown University and the University of

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[1] United States Government Accountability Office (2022). "Banking Services: Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could be Improved." https://www.gao.gov/assets/gao-22-104468.pdf

[2] Manuszak, Mark D. and Krzysztof Wozniak (2017). "The Impact of Price Controls in Twosided Markets: Evidence from US Debit Card Interchange Fee Regulation," Finance and
Economics Discussion Series 2017-074. Washington: Board of Governors of the Federal
Reserve System, https://doi.org/10.17016/FEDS.2017.074.
https://www.federalreserve.gov/econres/feds/files/2017074pap.pdf

Pennsylvania, who found that implementation of Regulation II in 2011 led to an increase in unbanked households by 2013.[3]

This proposed rule is based on flawed and incomplete information. The staff memo[4] presented to the Board in advance of the proposed rulemaking draws conclusions that are not supported by existing research. For example, staff suggests that if this rule were adopted, "Merchants, in turn, may pass on some portion of their savings from lower interchange fees to consumers." This conclusion is inconsistent with reality and unlikely to materialize. Banks pass the benefit of interchange income onto consumers - this fact is supported by the Federal Reserve's findings that costs to consumers increased when interchange rates decreased.[1] However, the Federal Reserve Bank of Richmond[5] and the Congressional Research Service[6] both found that there was no evidence of any reduction in retailer prices following implementation of Regulation II in 2011. There is no reason to believe that the outcome for consumers will change this time: more expensive banking services with no countervailing benefit from merchants.

Additionally, this rulemaking draws on the Board's 2021 card costs survey.[7] This survey is incomplete and the calculations that support the rulemaking do not accurately reflect the costs to issuers. For example, the cost to produce and deliver a debit card, the cost to produce and deliver statements required by the Electronic Funds Transfer Act and Regulation E, the cost to monitor transactions for fraud, and the cost to handle consumer inquiries are all real-world costs borne by banks as part of issuing a debit card, and all are excluded from the calculations in the proposed rule. The Board should ensure that such inconsistencies are remediated prior to issuing any rule that would further lower interchange rate caps and harm consumers.

This proposed rule is discretionary, unnecessary, and inappropriate. Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act is silent with respect to any revision or recalculation of the interchange price caps implemented through Regulation II. This rulemaking is not required by law and is being undertaken at the discretion of the Board. In the wake of the 2020 Coronavirus Pandemic, Banks went to work on behalf of our communities distributing Paycheck Protection Program funds in record time to keep our communities employed at a time of unprecedented disruption. We worked with borrowers to keep families in their homes and small businesses serving our communities. At the same time, retailers began raising prices, padding their profits, implementing share buybacks, and increasing shareholder income while consumers have suffered under the weight of the inflation that these

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[3] Mukharlyamov, Vladimir and Sarin, Natasha, "The Impact of the Durbin Amendment on Banks, Merchants, and Consumers" (2019). All Faculty Scholarship. 2046. https://scholarship.law.upenn.edu/faculty_scholarship/2046

[4] Eichner, Matther, et.al. (2023). "Proposed Revisions to Regulation II's Interchange Fee Cap." https://www.federalreserve.gov/aboutthefed/boardmeetings/reg-ii-memo-20231025.pdf

[5] Wang, Zhu (20212). "Debit Card Interchange Fee Regulation: Some Assessments and Considerations." Economic Quarterly, 98(3), 159-183. https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_quarterly/2012/q3/pdf/wang.pdf

[6] Getter, Darryl (2017). "Regulation of Debit Interchange Fees." https://crsreports.congress.gov/product/pdf/R/R41913

[7] Board of Governors of the Federal Reserve System (2023). "2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions." https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2021.pdf

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companies have engineered.[8] To ask consumers to underwrite further discounts to these retailers is inappropriate.

This proposed rule should be withdrawn. Given the above concerns, the Board should withdraw the proposed rule and reconsider additional price caps on debit card interchange. I encourage the Board to place consumers at the center of their analysis and decision making. As a regional community bank invested in the communities in which we live and serve, Umpqua Bank succeeds every day by doing the right thing by our customers. Asking them to pay higher fees so that multinational retailers can enjoy larger profits is not the right thing.

Sincerely,

Clint Stein
Chief Executive Officer
Umpqua Bank

[8] Accountable.US (2022). "The Biggest Corporations In Major Consumer Price Index Categories Are Using Price Increases To Help Fund $28 Billion In Additional Shareholder Handouts—Totaling $140 Billion—While Working Families Struggle." 2022-03-05-CPI-Pandemic-Profiteers-Report-1.pdf (accountable.us)