

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

Description:

Comment ID: 159195

From: Michael O'Connor

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Comments:

NONCONFIDENTIAL // EXTERNAL

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

Dear Ms. Misback:

Thank you for the opportunity to comment on the proposed rule to lower the cap on interchange fees for debit transactions. As a small business owner, I strongly support the reduction proposal as interchange fees have become my second highest operating cost. The Board of Governors should ensure appropriate actions are taken to provide relief to merchants across the country.

The costs of accepting card payments continue to rise to excessive levels. For debit transactions alone, merchants like me paid \$32 billion to accept payments in 2021, a 19% increase from the prior year. This significant growth in fees is a combination of continual new and high network fees along with increased consumer card use over cash. My small business cannot afford to fully absorb these inflated costs, so my customers have to foot part of the bill in the form of higher prices.

The recent proposed rule is an opportunity to ensure that debit interchange fees are reasonable and proportional to the cost to issuers processing a transaction. Although it is encouraging that the Fed is moving to adjust the decade-old cap, the proposed base component is still well over the average issuer cost. A reduction to the proposed base component would be consistent with the "reasonable and proportional" standard.

In addition to reducing the base component, I'd also urge the Fed to consider the liability of merchants for fraud prevention and fraud losses. Issuing banks have continued to shift the burden of fraud onto merchants and even consumers. Merchants now bear the majority of the burden from fraudulent activity. As such, the components related to fraud should be adjusted to reflect the current reality faced by my business and others. Specifically, the ad valorem component should be based on net fraud losses as opposed to gross losses. In addition, the fraud mitigation component should be reduced or eliminated entirely instead of increased under the proposal. Issuers should also be required to substantiate their claims regarding fraud mitigation efforts.

I appreciate the Fed finally taking action on this issue. Small businesses like mine desperately need relief from rising payments processing costs. I also fully support the proposed mechanism to automatically adjust the cap in future years. However, I believe further changes should be made to the proposal to ensure merchants receive the appropriate relief. Thank you for your consideration of these comments.

Small business employs the vast majority of people in the US. With big employers moving away from

people and more into automation and AI small business presents as the place that will continue to employ the majority of the work force well into the next generation. If small business continues to be marginalized by legislation written and conceived by people who have never owned a business and struggled with how to make a small business successful, millions of future potential jobs will be eliminated. The fed needs to continue to push congress to understand that small business must be protected at all costs.

Sincerely,
Michael O'Connor
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