May 7, 2024

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

RE: Docket No. R-2023-24034, RIN 7100-AG67
Debit Card Interchange Fees and Routing

Dear Ms. Misback,

First Bank is the banking subsidiary of First Bancorp, a $12 billion bank holding company headquartered in Southern Pines, North Carolina. First Bank was founded in 1935 and has operated in the small towns and larger metropolitan areas of the Carolinas over its nearly ninety-year history. First Bank offers the traditional, wide array of products and services to consumers living and businesses operating in our 120-branch footprint. We appreciate the opportunity to comment on the Notice of Proposed Rulemaking on Debit Card Interchange Fees and Routing ("NPR") referenced above.

While First Bank earns the vast majority of our income from our net interest margin, First Bank relies on stable, non-interest income fee sources, such as debit card interchange income, to enable us to offer deposit accounts to consumers and businesses with no monthly services charges. First Bank became subject to Regulation II in 2022. As one of the smallest institutions subject to Regulation II caps, we experienced a significant drop in the debit card interchange income by virtue of crossing $10 billion in assets. While interchange income from debit cards has declined dramatically since the caps became effective, our costs associated with offering debit card, including fees paid to our processor, have only increased. This is in addition to the fact that expenses related to debit card fraud losses have increased over 200% since 2021 and exceeded $900,000 in 2023. Because of the decline in revenue and increase in expenses, this revenue stream that once supported other bank products, services and offerings is now quickly approaching a breakeven proposition at best. In recognition, we dropped our debit card rewards program, a valuable benefit to our consumers and businesses. We have maintained two deposit account programs, one for consumers and one for businesses, without a monthly service charge. However, if implemented, the updated proposed interchange cap will make us reconsider that decision.

Under Regulation II, interchange fees are meant to be "reasonable and proportional to the costs incurred by the issuer". At the time of the 2021 Issuer Survey, First Bank was not subject to Regulation II. The 2021 Issuer Survey results revealed that 22.6% of covered issuers were unable to fully recover the costs at the current $0.21, plus 5 basis point methodology. And based on those results when factoring in the decrease in interchange income as proposed, approximately 33% of all covered issuers would not fully recover their costs. Smaller issuers, like First Bank, will be subject to a disproportionate impact from the proposed cap in interchange fee income as compared to the largest issuers.

We propose instead that the Federal Reserve distinguish between issuers based on metrics that will better align with the mandate that interchange fees be "reasonable and proportional to the costs incurred by the issuer". The Federal Reserve commonly applies regulatory oversight tailored to the asset-size of the institution. We urge that the proposed, reduced debit card interchange cap be applied to only institutions with more than $100 billion in assets. This would align the regulatory mandate (i.e. "reasonable and proportional") to the reality of economies of scale.

Since Regulation II took effect, there has been no credible analysis indicating that consumers and small businesses enjoyed the benefit of the reduced interchange from the merchant. And yet, it is fact that nearly all covered issuers have dropped debit card reward programs due to the interchange cap. We urge the Federal Reserve to consider our proposed scaling of the interchange cap to avoid pushing most banks away from offering fee-free deposit accounts.

Sincerely,

Michael G. Mayer
President, First Bancorp
CEO, First Bank