TENNESSEE
LEAGUE
The Voice for Tennessee Credit Unions

May 8, 2024

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

Re: Debit Card Interchange Fees and Routing (Docket No. R-1818; RIN: 7100-AG67)

Dear Sir or Madam:

On behalf of Tennessee's 131 credit unions and our over 2.4 million members, I write to you today in response to the proposed amendments to Regulation II issued by the Board of Governors of the Federal Reserve System (Board). The Tennessee Credit Union League (League) advocates for all of Tennessee's credit unions and their members and supports policies that allow them to fulfill their mission of people helping people and to serve their communities. The League appreciates the opportunity to comment on this proposal and appreciate the Board's work.

The League strongly opposes any reduction on the interchange fee cap. The methodology applied here would disproportionately harm smaller credit unions by using the transaction-weighted method. We've already seen before that a reduction in interchange-fee income only hurts the member-owner/consumer and lines the pockets of retailers. We ask that the Board withdraw the proposed rule because it lines the pockets of merchants while harming credit unions and their members, directly impacts consumers and their bottom line, affects credit unions of all sizes (even those exempt), uses flawed methodology, is a part of increased regulatory pressure on sources of fee income that will force credit unions to consolidate or eliminate critical programs that members of modest means rely on.

We saw with the original cap on interchange fees with the Durbin Amendment in 2011 that retailers' promises to pass the savings onto consumers never came to fruition. Instead, we saw the end of free and low-cost checking while the merchants kept the profits. If we further lower the cap, we will see more profits for big-box retailers and less financial services available for low to moderate income families. America's Credit Unions' data shows that more than 3.500 credit unions across the country offer free checking accounts, but the cost of preventing and mitigating fraud is increasing rapidly. The ability to provide these services is already threatened and will be further limited.

This proposal will directly impact consumers. We saw with the original cap in 2011 that consumers were harmed. The Electronic Fund Transfer Act (EFTA) requires the Federal Reserve to consider the impact of its regulations on consumers. With the results we've seen over the last 13 years from the 2011 cap, similar harm is likely to occur with a further reduction in the cap as proposed.

All credit unions, including those under $10 billion that are technically exempt from this proposal, will be impacted. When the interchange fee was capped in 2011, small credit unions interchange fee income was reduced by as much as 29%*, even though they were exempt.

The Board's transaction-weighted methodology is fundamentally flawed. This method will further harm smaller institutions that lack scale. As discussed previously, fraud prevention and mitigation is growing and this proposal adopts a limited fraud prevention adjustment which would actually deny full cost recovery for actual fraud losses for half of the covered issuers. This will just continue to increase the costs for credit unions, who are already less able to absorb reductions in interchange revenue due to their not-for-profit structure.

In this current environment, regulatory pressure is increasing on sources of fee income for financial institutions and this proposal just adds to that. The continual pressure on this will force not-for-profit credit unions to consolidate and/or eliminate critical programs that help low to moderate income Americans reach their financial goals. When the 2011 cap was adopted, only 2 of the 7,386 credit unions were subject to the regulation. The number of credit unions has since decreased by 37.6% and now 21 credit unions are subject to the cap. In addition, the not-for-profit structure of credit unions allows them to return savings and benefits to their members. This reduction in interchange income will certainly threaten their ability to do so.

Finally, the approach to continually decrease the cap every two years without a request for comment is a dangerous precedent in government set pricing. We believe any changes to our industry should be a transparent and open process and take all repercussions into consideration.

In conclusion, we as the Tennessee Credit Union League implore you to withdraw this proposal to decrease the debit interchange fee cap. The original cap has proved problematic for credit unions and consumers alike and therefore should not be further reduced. Thank you for the opportunity to provide our perspective.

Sincerely,
Sarah Waters
Chief Advocacy Officer
Tennessee Credit Union League

*Cornerstone Advisors – The True Impact of Interchange: How Government Price Controls Increase Consumer Costs and Reduce Security