

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

Description:

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From: Benjamin Chavis

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

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Comments:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]

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Your comment: CHAVIS: Congress is Right; Federal Reserve's Reg II Will Hurt Minority Communities in America Dr. Benjamin F. Chavis I am pleased to congratulate Rep. Nikema Williams (D-Ga.) who led a coalition of lawmakers who wrote to the Federal Reserve urging the central bank to withdraw Regulation II; its new proposal to reduce the cap on the debit card swipe fees merchants must pay to debit card processors; out of concern that it will hurt minority communities' credit access. I sympathize with the feelings of these congressional members. Having dedicated my life to advancing civil rights and promoting economic advancement for African Americans, I fear that this proposal, while well-intentioned, will create regressive outcomes that will ultimately hurt the very people it is intended to help. While lowering the current cap on debit card swipe fees may appear like a reasonable measure to take in what has proven to be a lackluster economy for many merchants, my experiences; from coordinating youth activities with Rev. Martin Luther King to serving on the national board of directors

for the NAACP; have underscored the importance of scrutinizing policies for their broader implications. When doing so with Regulation II, I; like the congressional coalition; concluded that lowering the swipe fees would hurt the same small financial institutions that minority communities depend on for credit access, which would thus widen the nationwide racial wealth gap and banking disparities. Economic history tells this story well. While reluctant to do so at the time, the Federal Reserve first limited swipe fees on debit card transactions on 2011. Studies, including one from the Richmond Federal Reserve, indicate that most retailers did not pass their savings onto consumers; a significant portion even raised prices. Meanwhile, as Main Street continues to struggle with the policy, Federal Reserve studies have found that large corporations have reaped nearly \$8 billion annually since this rule was enacted. Although large corporations benefited from not having to pay as much in swipe fees, this price control hit the small financial institutions that had to subsidize this giveaway for them hard. It gave many of them no choice but to reduce fee-free checking from 75% to 40%. The Federal Reserve now estimates that six million Americans are "unbanked," and many more are "underbanked"; meaning they must use alternative financial products like check cashing services instead of traditional checking and savings accounts to make ends meet. The debit card cap has contributed significantly to this crisis. Many financial institutions have also raised customer fees in response to interchange fee caps, with Rule II poised to intensify these challenges. Regulation II will increase them even further. According to Nick Bourke, former director of consumer finance at the Pew Charitable Trusts, it may bring up to \$2 billion in additional consumer costs. This escalation of fees threatens to sideline even more minority communities from the banking system, impeding their access to essential credit services required for entrepreneurship and homeownership. The board of governors at the Federal Reserve are committed to advancing racial equity. By proposing Regulation II, they are not intentionally doing the bidding of large corporations; however, they may be being misled by these companies' advocacy efforts. The Fed is taking every effort to promote income equality and workplace diversity and inclusion, but Regulation II would undercut its great work in this respect and cause potential harm to millions of minority families. Now that a congressional coalition has drawn the Fed's attention to this concern, the central bank should respond by taking a closer, harder look at its Regulation II proposal. It is the only right and just thing to do. Chavis is chairman of the National Association for Equal Opportunity in Higher Education (NAFEO) and president and CEO of the National Newspaper Publishers Association (NNPA).