



May 7, 2024

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

RE: Regulation II
Agency Docket Nos.: R-1818; RIN 7100-AG67

Dear Ms. Misback:

We are writing in response to the Federal Reserve System's proposed rule "Debit Card Interchange Fee and Routing" and thank you for the opportunity to provide feedback.

Established in 1934, Suncoast Credit Union ("Suncoast") is a state-chartered credit union headquartered in the state of Florida, with over \$17 billion in assets, 78 branches, and serving 1.2 million members predominantly in the state of Florida. Credit unions are non-profit financial cooperatives, which allows us to return more to our members by way of lower rates on loans, higher earnings on deposits, free or low-fee services such as debit cards, and to invest in the communities we serve.

Suncoast is grateful for the chance to provide feedback to the Board of Governors of the Federal Reserve (the Board) regarding its proposed changes to debit interchange fee caps and routing (Regulation II). We harbor significant concerns that any decrease in the debit interchange fee caps will greatly affect the affordability of essential financial services. Therefore, we urge the Board to withdraw the proposed rule.

The essence of recent arguments in favor of lowering the debit interchange rate are premised on a misapprehension of data suggesting a decrease in the cost of issuing debit' therefore necessitating a reduction in the interchange rate. However, this data does not capture the financial realities. The survey methodology does not cover all debit program costs, including cardholder inquiries, card production and delivery, non-fraud dispute processing and chargebacks.

The Federal Reserve's memorandum indicates that the current data aligns closely with market expectations established when Regulation II was first implemented. The established base fee of twenty-one cents was intended to match the allowable cost per transaction for issuers at the 80th percentile (excluding fraud losses). Presently, this figure stands at approximately 77%. Given this statistical data, there seems to be no justification for a 30% reduction in interchange fees, which would decrease the proportion of covered issuers to 66%. This reduction contradicts the original intent of the regulation and could harm the 34% of issuers not included in this coverage.

The proposed fraud prevention adjustment calling for an increase of only .3 cents does not correctly account for the increase in fraud related cost. The proposed biennial updates fail to allow the time necessary to gather and validate the data, which will most likely necessitate future adjustments after studies reflect the proposed 1.3 cents is insufficient to cover the actual level of fraud losses. This data uncertainty raises additional concerns for not-for-profit debit card issuers in an environment where fraud and debit card expenses continue to increase exponentially year over year. The timing of the automatic biennial adjustments also creates an additional burden as it does not align with normal yearly strategic and budget planning, which analyzes expected income versus expense ratio to determine what, if any, new products, services, or technological advances can be made.

The lack of inclusion of all expenses incurred into the proposed methodology will lead to inflated recovery rates and a false narrative of what is expended by financial institutions.

Debit interchange fees are crucial as they help offset the costs borne by debit issuers in providing these services, particularly in managing and mitigating debit card fraud, which has surged in recent years. These fees enable us to continuously reinvest in robust security measures and fraud prevention systems, safeguarding both our operations and our members' financial assets. The growing menace of fraud continually accelerates the operational costs, making interchange income vital for maintaining a secure and viable debit issuance service for our members.

Suncoast debit cards are chip enabled, delivering a significant improvement in the security of face-to-face purchase transactions. We also offer contactless cards that provide security with tokenization of transactions. Members can utilize our online and mobile applications to turn their card on and off if they lose their card and/or suspect fraud. Fraud detection systems automatically pause activity, alert cardholders, and terminate fraudulent transactions before our members are even aware that fraud has been attempted. These are just a few of the many improvements made since that original reduction in issuer interchange revenue. These offerings would not have been developed without sufficient revenue to make the investment. As the interchange revenue continues to decrease and fraud detection systems continue to increase in costs, future development may be hindered.

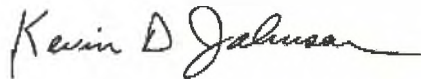
Suncoast members currently have access to a full array of low-cost products and services, as well as the ability to access their funds 24/7 electronically utilizing debit card services. This convenience comes with a cost to the issuer. Further reduction in interchange revenue could threaten credit unions' ability to return savings and benefits to members. If the cost of debit issuance services becomes too expensive without recoupment through interchange, financial institutions may move to limiting such services that have mutual benefits to consumers as well as businesses.

Credit Unions are known for championing financial inclusion, particularly in communities underserved by traditional banking establishments. The proposed changes could hinder our ability to reach and serve these communities effectively, undermining efforts toward greater financial inclusion.

Thank you again for the opportunity to comment on the proposed rule. As stated above, we are opposed to the proposal. Debit stands out as the most widely used non-cash payment method and serves as a foundational financial product for numerous low- and middle-income consumers. This proposal has the potential to hinder rather than promote financial access and inclusion.

Please feel free to contact us for any further discussion.

Sincerely,

A handwritten signature in black ink that reads "Kevin D. Johnson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Kevin Johnson
President/Chief Executive Officer
Suncoast Credit Union