

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

Description:

Comment ID: 160392

From: Wakefern Food Corp., Robert Joyce

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

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

Comments:

NONCONFIDENTIAL // EXTERNAL

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

Dear Secretary Ann Misback,

I am writing to you as a Wakefern Food Corp. Manager. Wakefern Food Corp., is a retail cooperative of family owned and operated supermarkets.

I am writing in response to the notice of proposed rulemaking (NPRM) on Debit Card Interchange Fees and Routing (Docket No. R-1818, RIN 7100-AG67) to share the perspective of main street merchants and businesses that accept debit cards for payments. The proposed rule takes a step in the right direction to revise the debit regulated rate and create an every other year rate adjustment process, but further revision is needed.

According to Federal Reserve data, banks' costs for processing debit transactions have decreased over time. However, merchants serving every community in the country and ultimately customers have continued to pay more when a debit card is used for purchases. The debit regulated rate is required to be "reasonable and proportional" under law but both the current rate, set a dozen years ago, and the proposed rate are not reflective of banks' processing costs.

Before the process for updating the debit regulated rate every other year is set, merchants request that the three components that comprise the rate base component, ad valorem loss fee component, fraud prevention adjustment and the methodologies be modified and a process for careful oversight and auditing of issuer reported data by the Federal Reserve be implemented to ensure that issuer costs are not misrepresented or inflated. Specifically, merchants propose the following modifications to the NPRM.

The proposed rate does not reflect the nearly 50 percent actual decline in issuer costs. The formula for calculating the base interchange fee component must have a fixed multiplier of no higher than 2.7.

The proposed four basis point ad valorem fee is not sufficiently "reasonable and proportional" given the reduced number of covered issuer fraud losses, and the component should be awarded on an issuer-by-issuer basis.

The fraud prevention adjustment must be meaningfully evaluated on an issuer-by-issuer basis, and the eligibility for both the fraud prevention adjustment and fraud loss component should be rewarded to only those covered issuers that take effective steps to reduce debit fraud rather being systematically awarded to all issuers.

The proposal for every other year rate adjustments should include the above methodology changes. The Federal Reserve Board should also implement oversight and auditing of reported data to ensure that issuer costs are not misrepresented or inflated.

Thank you again for the opportunity to express merchants' support for revising the debit regulated rate components and methodologies to produce a level that is "reasonable and proportional" according to the law. As banks' costs for processing debit transactions have gone down and continue to go down so should the regulated rate levied on merchants serving customers across the nation every day.

Sincerely,

Mr. Robert Joyce
Manager
Wakefern Food Corp.